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The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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RT II . . .

1959 OUTLOOK R LEADING INDUSTRIES

Which offer best prospects

By George W. Mathis

★

EALISTIC APPRAISAL OF TERNATIONAL SOLVENCY

Key to prices — and world trade

By V. L. Horoth

★

AN EXPERT FORECASTS HE 1959 BOND MARKET

The business outlook — money market — with selected issues in 4 categories

By Michael Stephen

★

ecial Security Features . . .

MAJOR ANALYSIS AND OSPECTS for the UTILITIES

By Owen Ely

★

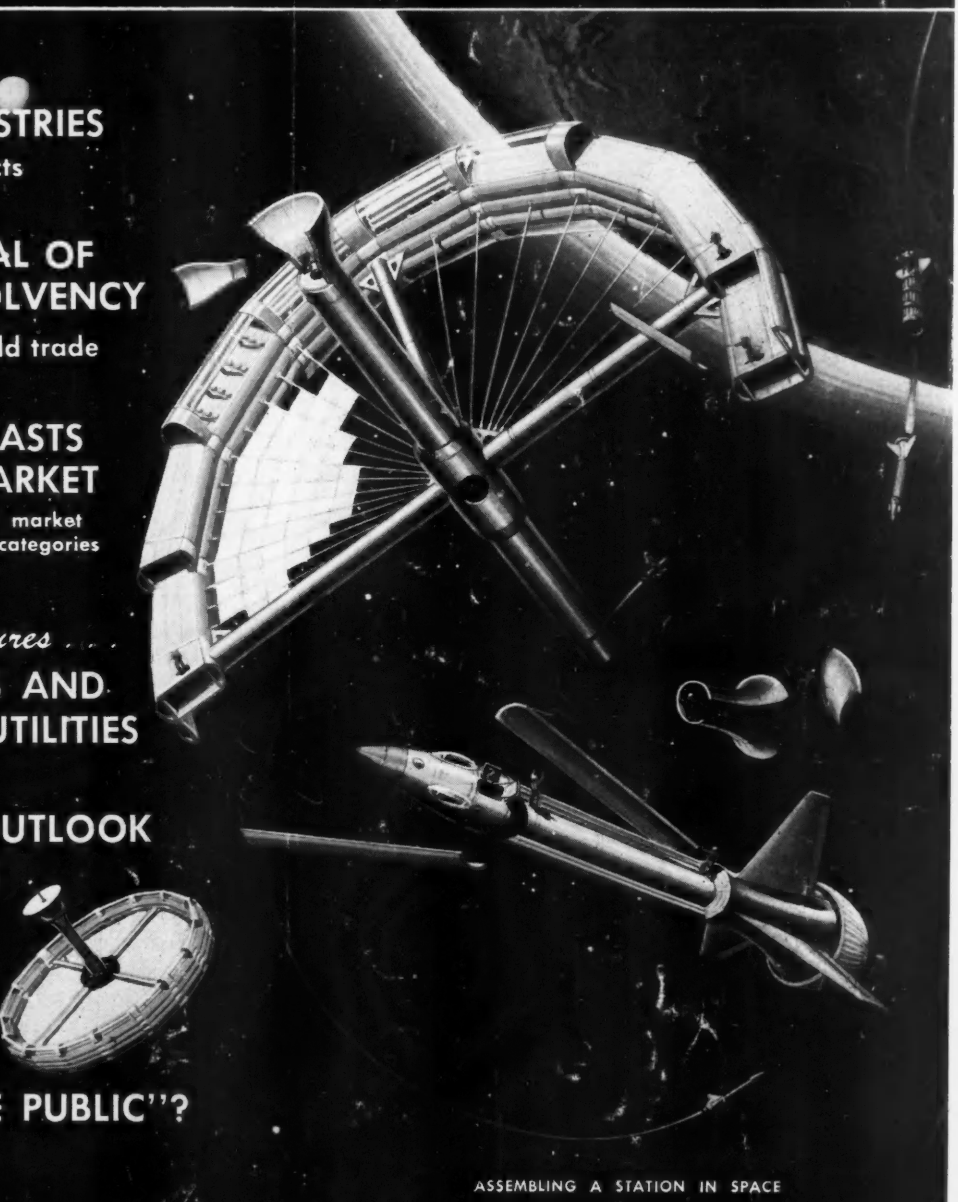
59 INVESTMENT OUTLOOK for BANK SHARES

By Frank Elliott

★

What About AMILY OWNED CORPORATIONS AT HAVE "GONE PUBLIC"?

By Robert Shaw



ASSEMBLING A STATION IN SPACE

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CONTENTS

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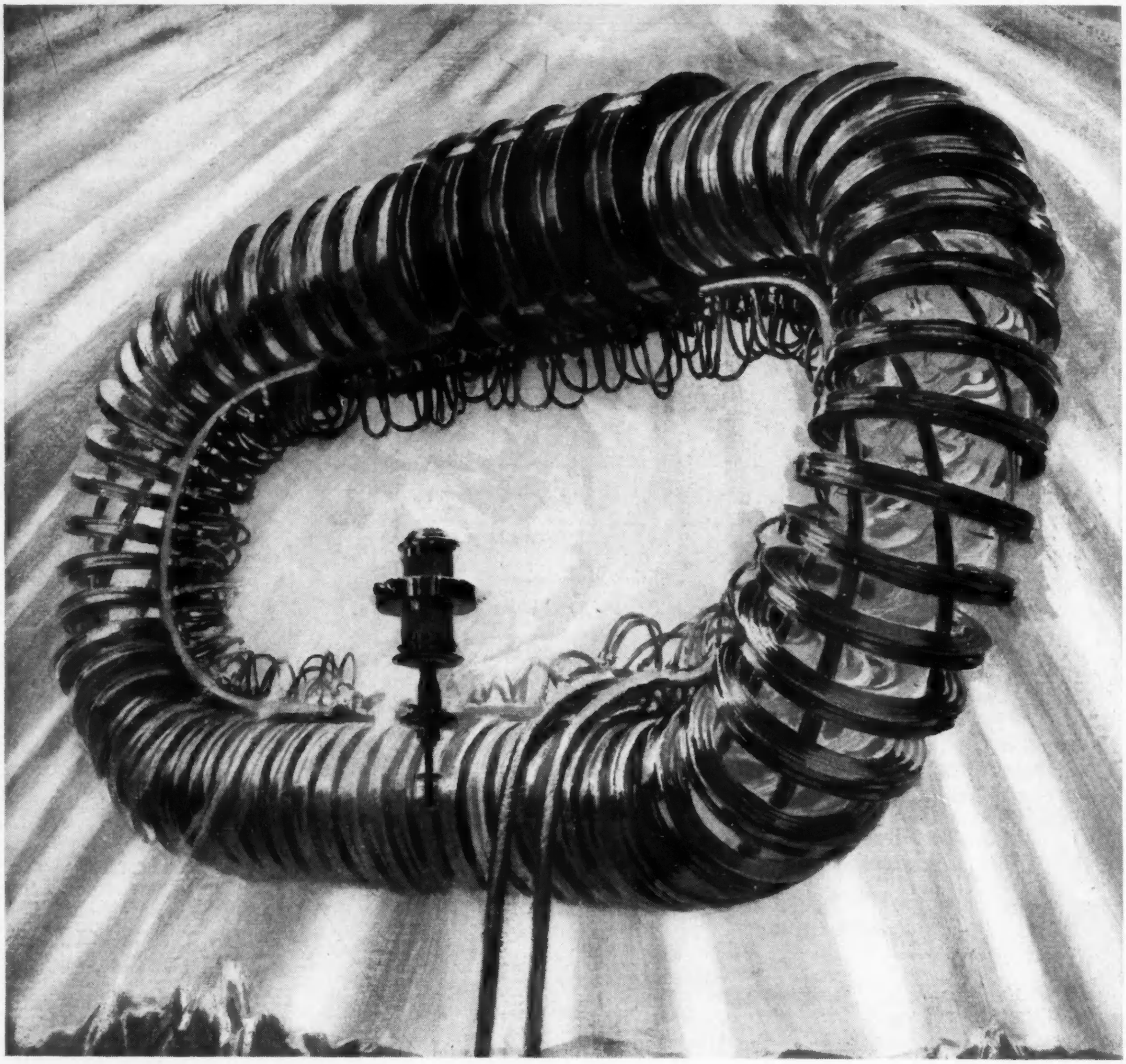
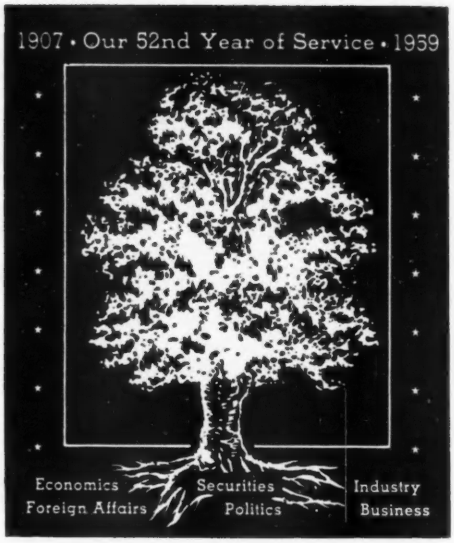


THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

BRAINS ARE THE ANSWER . . . It has always been thus. It has never been money, power or position. The thing that has counted in every age has been the capacity to out-think the other fellow. That is what the Russians are doing to us today. They are out-maneuvering us because they are out-thinking us.

When we launch a missile and it falls short of the objective, we develop an inferiority complex. And Russia capitalizes on it. When Moscow launches a Lunik and overshoots the target, they merely change the name to "dream" in Russian—and everybody applauds. No one says anything about the fact that a miss is a good as a million miles. Yet it is a fact a missile directed at this continent could overshoot its mark and hit Red China instead—which might be Russia's intention in the first place, but gives her a chance to declare that actually it was aimed at the United States.

And no one has challenged her latest claim that Lunik has gone into orbit around the sun. Nor did Moscow find it necessary to explain how they happened to arrive at this conclusion, although all radio contact with the missile was lost after a few days. Who knows whether it was attracted by another planet—burned up—or disintegrated. Maybe the Russians did not think they had to explain, because they were sure many people were going to believe them anyway, and that making explanations is psychologically unsound. Instead, we can be sure, the Russians are going to move heaven and earth to try to make us believe that they have created a cosmic man-made planet, and there will be plenty of people everywhere who will accept their claim as a fact.

What earthly use is this "Lunik called Mechta" anyway, except to encourage the spending of vast sums by the United States in the field of abstract scientific adventure. And that would suit Soviet purposes too. It would be the cheapest way to win a war with the United States, which would be destroying itself at the instigation of only a little psychological push from Moscow.

Actually, the communication marvel that was developed for our recently launched Atlas is of greater practical and scientific value than the Lunik. Not only is it a genuine contribution to all forms of communication, but as an instrument in warfare it can be used to greatly confuse and disorganize our enemies. This development poses a much greater threat to Russia than Lunik does to the United States, and still we have done little to extol its advantages.

The accomplishment of the Nautilus and the Skate submarines was an achievement of the first order that gave Russia plenty to think about, but which, after the first burst of enthusiasm, has been accepted merely as a matter of course by the people of this country rather than as the great achievement that it is. Here too the practical

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907—*"Our 52nd Year of Service"*—1959

value in submarine and missile warfare was amply demonstrated, and I believe that the Russians in both these instances have recognized the significance of these accomplishments to a much greater degree than we have.

At any rate, the Lunik was well named. It means "little moon" in Russian. And when we think of what being moonstruck can do to one's wits, we are glad that the Russians renamed it Mechta now that it has vanished like a dream.

VIOLENCE ON OUR DOORSTEP . . . Only 90 miles away from our shores, a successful revolt, fought under the banner of liberty, is now denying even freedom of thought to the vanquished.

The Cuban revolution is following the age-old pattern used by power-hungry victors, who seeking to establish their sway, rush into a bloody annihilation of the opposition. The speed with which executions are following accusations shows that due process of law is going by the board, and that brutality and tyranny is in the saddle.

Talk to any informed Cuban in this country, and they will tell you that Fidel Castro was merely the torch used to set aflame the anger of a hard pressed people against the dictatorship of Fulgencio Batista. That back of the revolution are ruthless and greedy men who want to take over the rackets that have been flourishing so openly in Cuba in connection with the tourist trade, the gambling syndicates, and legitimate industry.

While Provisional President Urrutia at first declared that there would be no more gambling in Cuba, Fidel Castro, himself, has now declared that gambling will be banned for Cubans but not among tourists. Anyone familiar with the Cuban lotteries which are comparable to the numbers racket in our country will agree that this type of gambling among the people is virtually impossible to eradicate. Meanwhile the plush gambling casinos are to be allowed to re-open with government approval, so that we can expect the emergence of deals that will carry on the long established practices of the underworld, for Cuban officialdom has been graft-ridden for years. Those who will be removed from office by assassination or otherwise are sure to be replaced by hungry revolutionaries seeking a division of the spoils. In fact, there has even been a recent rumor that some designated "gun" is on his way to Havana to assassinate Castro now that he has served his purpose.

As for the Cuban people, I doubt that they have very much to gain from the change foisted on them, for the revolution, as always, while fathered by Machiavellian minds, was fought by the young and the immature—by students whose short span of existence lacked the experience and understanding needed in the conduct of human, let alone political affairs. And while there may be changes in leadership, as was true in the French Revolution, today, as a last resort, there is always Communism to hold the people in line—this time right on our doorstep.

In fact, there has been considerable conjecture as to who has been supplying the rebels with arms and tanks, and with the money. Rumor has it that unidentified submarines have surfaced off the extreme eastern coast of Cuba and unloaded weapons. And Tass triumphantly referred to the success of the Cuban revolution as a defeat for the U. S.!

The situation is dangerous in the extreme, and we must do more than sit by and casually watch the panorama of events as they move along. In fact our haste in recognizing the new Cuban regime was necessary for maneuverability in dealing with the situation.

NASSER, IRAQ AND OIL . . . As the saying goes, "the best laid plans of mice and men oft'time go aglei." The situation in Iraq is a case in point. When that country's monarchy was brutally overthrown last July by a group of Pan-Arab nationalists, there was general rejoicing in Cairo, the fountainhead of Pan-Arabism, and an apparently well founded anticipation that one more brother-state (and an oil-rich one at that) would soon join the United Arab Republic. In the six months since then, things have turned out very differently. Iraq's Premier, General Kassem has bent every effort to the task of stopping the union-with-Egypt movement, sidetracking its leader, Col. Aris, in order to curtail the influence of the Pan-Arab Baath party.

At first General Kassen was widely praised in the West for his strong stand against the Egyptian steamroller, but soon it became apparent that outside of the monarchists who are now in hiding, there are only two political groups of real significance in Iraq, the Baath party and the Communists. Having rejected the aims of the former, Kassen had no choice but to rely increasingly on Communist support.

Already the situation has reached a point where the Communists are very close to actual control of the country though they are still operating mostly behind the scenes. Meanwhile in Cairo Colonel Nasser seems to be having strong second thoughts about his union with the Soviet Bloc. The Communists have not only frustrated his hope of obtaining oil-rich Iraq. They are even stirring up trouble against him in Syria. The situation has not yet led to an open break between Nasser and the Soviets. But the Egyptian dictator's recent public attack on the Arab Communist movement contained almost as many invectives as if it had been directed against his arch enemy, David Ben Gurion.

A clear illustration of Nasser's changed attitude was shown in the recent visit to Cairo of the Premiers of Italy and East Germany. While Signor Fanfani was received with an almost showy display of warmth and friendship, Herr Grotewohl was given the correct but impersonal treatment reserved until recently only for Western visitors.

For the West, the big question in all this is always —what will it do to the Middle East oil industry– For the moment, probably nothing. But there can be no doubt that the Western-owned Iraq Petroleum Company would not fare well in a country controlled by Communists. Iraq's Communists know that for the time being they must tolerate the West-owned oil company or they cannot sell their oil. But their frantic attempts to conclude trade agreements with Soviet Bloc states (7 in the last couple of months) is a clear indication that in the long run they hope to re-orient their economy towards the Soviet Bloc, with schemes of selling oil to China and the neutral countries in Asia. The West's position that such a scheme is both technically and economically unrealistic is probably correct, but it is not likely to cut much ice with the Red leaders of Bagdhad. END

As I See It!

By James J. Butler

THE SHADOW OF A DICTATOR — FALLS ACROSS THE U.S.A.

THE most audacious character in the United States today is James R. Hoffa, who has been flexing his muscles in the most arrogant bid for power that has ever been made by a citizen of this country. If we take it as a symptom of degeneracy in democracy, we must assume that there is a point where liberty becomes a misnomer when license takes its place.

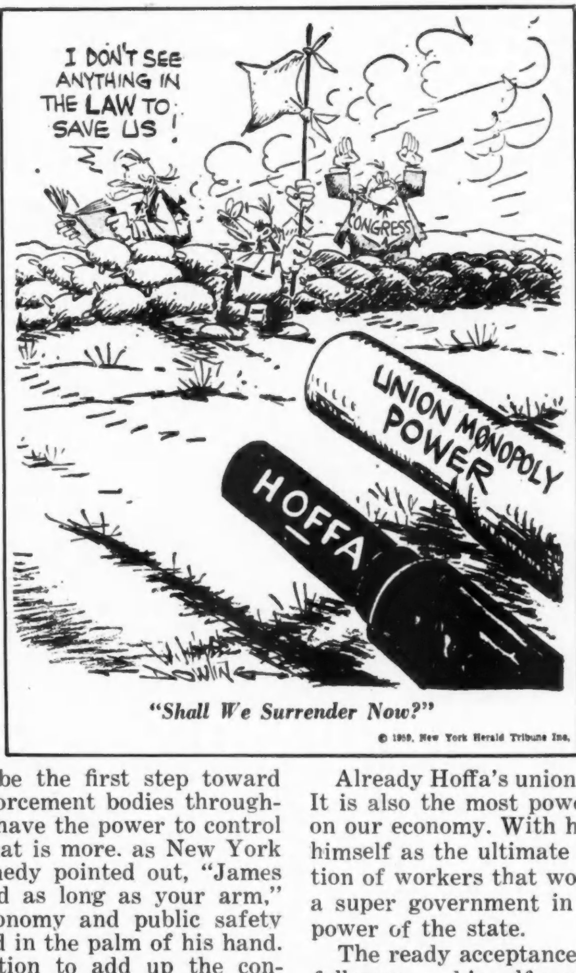
By announcing his plans to unionize the Police Department under the auspices of the Teamsters' Union, and threatening to set up pickets before the commissioner's office in New York City to prove he isn't fooling, Mr. Hoffa has taken the bit in this teeth and is challenging the United States government to meet his effrontery with laws designed to clip his wings.

That he already has the power to stagger the national economy by calling members of his Teamsters' Union out on strike is a fact known most of all to him. It hangs over the nation like a threatening cloud. If he succeeds in developing a working arrangement with transporters by rail and plane, the peril will become anarchistic in its truest sense.

But if he could succeed in organizing the police of New York, which would be the first step toward unionizing all the law enforcement bodies throughout the country, he would have the power to control the entire nation. And, what is more. as New York Police Commissioner Kennedy pointed out, "James Hoffa with a police record as long as your arm," would have the entire economy and public safety of the United States lodged in the palm of his hand.

It requires no imagination to add up the consequences: Here is a dictatorship more sweeping than Hitler, Mussolini, or Khrushchev ever attained! And it is based upon the elements of dictator rule, including the armed strength (or disuse of it, if you prefer), for the combined police departments of the country dwarf the armed forces, and are deployed in every community.

By the very act of negotiation with the police unions, the Teamster boss has "served notice" in a way that must register in every household in the country, as well as in every mart of trade and commerce. And for the first time in our history, dictatorship is staring us in the face right here at home.



"Shall We Surrender Now?"

As the cartoon herewith so aptly puts it, "shall we surrender now?" — for "there is nothing in the law to save us". Or, shall we enact laws with teeth that will cut Mr. Hoffa down to size and break up the monopoly represented by labor unions whose power stretches from one end of the country to the other. and is making a mockery of our democratic system, which needs the proper checks and balances to make it sound and functioning properly?

Mr. Hoffa appears unafraid, and is nonchalantly proceeding with his plans on the ground that there are no laws that can prevent him from unionizing all forms of transportation — the policemen — the firemen — or any other group that he decides to take over. And he is absolutely right, for no one is stopping him.

Already Hoffa's union is the largest in the country. It is also the most powerful in its potential impact on our economy. With his limitless ambition he sees himself as the ultimate czar over a gigantic federation of workers that would put Hoffa at the head of a super government in a position to challenge the power of the state.

The ready acceptance of his leadership among his followers — his self-assured approach — his disdain of any legal obstacles — has opened our eyes to the danger that confronts us — and shown us how easy it would be for a dynamic and resourceful individual to establish a dictatorship in our country.

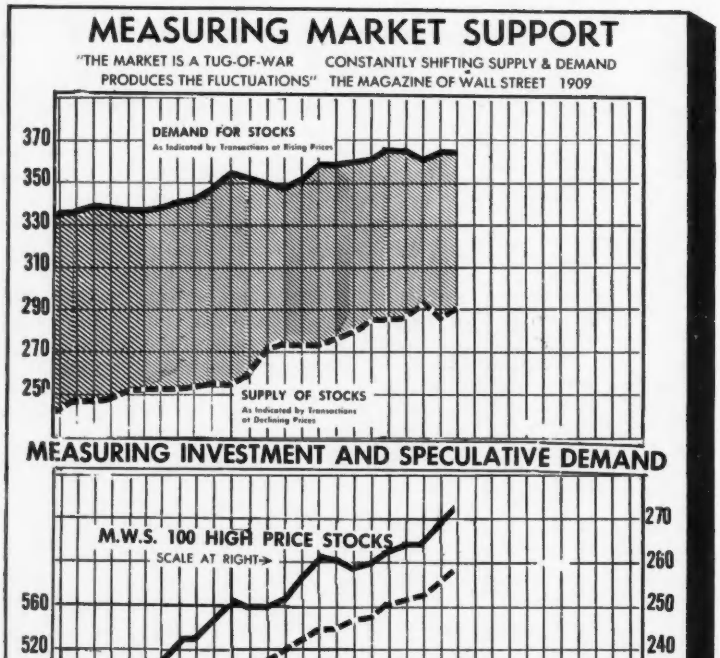
Washington--And The Securities Market

This remains a time of excessive optimism with momentum under the inspiration of the trade advance of late 1958, and of high hopes for corporate profit growth, of probably mistaken notions about inflation. With greater disregard of real values than at any time since 1929, the market has risen further. But the strength was more apparent than real and did not prevent a fairly substantial mid-week reaction. The fact that commodity prices, a real inflation index, continued to drift lower without attracting attention in the stock market, is worth questioning. A substantial correction is increasingly needed. Do not add to your risks here.

By A. T. MILLER

THERE is an old saying that nothing succeeds like success. That is so for extended periods in the stock market, when hopes feed on hopes; and the higher prices go, the greater is the general optimism. So the extension of the large 1958 rise into early 1959 to date is merely more of the same. A sizable one-day dip last week brought momentary qualms, but they were quickly laughed off. The party is still on, and the whoop-up drowns out the voices of the few who say enough is enough and it's time to quiet down.

People are interested in values when buying a house, clothing or almost anything else — except stocks. Of course, there is still talk about stock values; but the main concern now is with movement of stock prices — with making a fast buck. The talk about values is increasingly a mere rationalization of why prices are running further and further ahead of values, as determined by earnings and dividends — of why the reasons are "different and sound this time."



Facts and Fancies

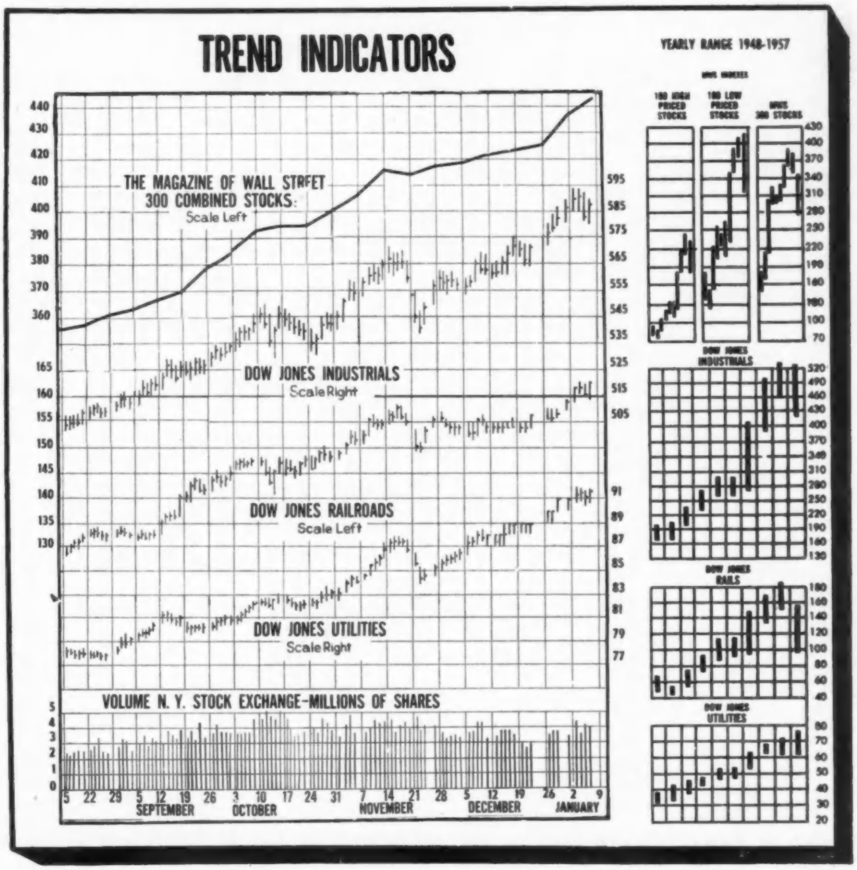
It is better to buy an over-priced stock for cash than on margin; but, either way, buying is unwise or inopportune or both. We don't have the margin-debt pyramid of 1929, to be blown down like a house of cards. We do have some automatic economic shock-absorbers; and assurance of Government counter-action against business recessions. The latter works fairly well, partly because people are confident that it will, and act accordingly. It is highly questionable that the three moderate postwar recessions represent the maximum possible limits of future adjustments, but it is generally believed that deep and long depressions are unlikely to recur.

The postwar stock market has not been an easy or foolproof road to riches; but average investment and speculative experience with it nevertheless has been more happy than sad — which is a goodly part of the reason for growth of popularity of common stocks, for rising confidence and, finally, for over-confidence. Not since the wartime bear market culminated early in 1942 has a decline amounted to as much as 40%. The largest ones of the postwar years to date were 23% in a few months of 1946 and 21% in 1957 from July into October, both in terms of the industrial average.

On the other hand, the bull markets — excepting the minor 1947-1948 one —have been large and protracted. So

the idea has grown up that "serious" market declines are out the window; and predictions that the Dow average will go to 800, 1,-200 or what have you in one or two years are a dime a dozen. Serious is a broad word. Declines on the order of the 89% of 1929-1932 do look impossible; but that does not mean that no future decline can exceed the previous postwar limits of 21%-23%.

To figure so is to reason that no severe penalty must be paid for excess, that it does not matter how high price-earnings ratios go and how low dividend yields fall. This sort of pie-in-the-sky thinking could in time grease the skids for a decline up to 30%-40%, when the disillusionment comes. Bear in mind that, as percentage works, a 37½% decline wipes out a 60% advance. (The advance to date from the 1957 low is about 40%.)



Taking a reasonably hopeful view of 1959 corporate profits and dividends, we figure that industrial stocks on average are priced about as high on earnings and dividends as they were at the 1929 extreme. As heretofore noted, there is less vulnerability — but overvaluation is still overvaluation; and, regardless of the difference in the margin position, there are unquestionably many more individuals, including many with limited capital, trying for profits in the market today than there were is 1929.

It is correctly said and often repeated that demand for stocks tends to exceed the supply for sale, with the result that the bidding of buyers forces average prices upward. There is nothing novel about this condition, regardless of variations in detail from one bull market to another. At any time of great optimism, individual investors and speculators — and institutional fund managers — are more inclined to buy or hold stocks than to sell. The present supply-demand balance is no more permanent than a bull market is endless.

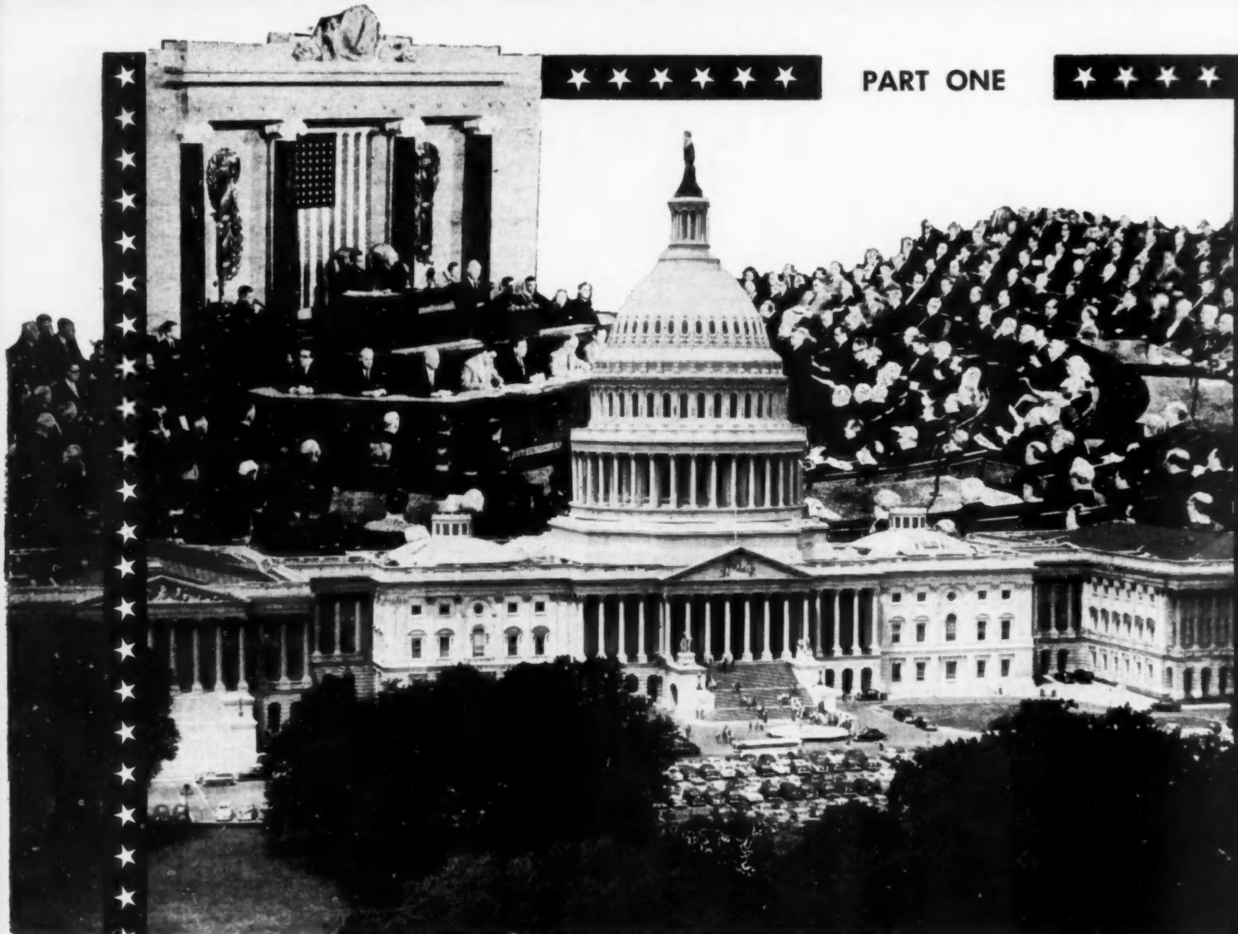
The assumption that more inflation is inevitable is widespread. This has come to be the No. 1 rationalization of high stock prices. It is argued that the Democratic majority in Congress means continuing heavy deficit spending, that the unions will continue to use monopoly power to inflate labor costs, and that the present instability of the dollar will end as the remaining slack in industrial capacity is taken up by progressive business recovery.

These are plausible arguments and may be correct. However, it remains to be seen to what extent the "spenders" will prevail over middle-road Congressional leadership and some Presidential vetoes. On the wage front, much depends on the outcome of the mid-year battle in the steel industry.

It seems to be taken for granted that the further inflation will be "creeping," as in recent years. If so, stock prices have discounted inflation a considerable distance into the future. However, the theory of creeping inflation for years to come is questionable. It might not take much more looseness in fiscal policy and irresponsibility in wage policy to bring on a real crisis of confidence in the dollar, and a more rapid depreciation. In that case, serious economic disruptions would occur, profits in many lines of business would be severely squeezed, and public distress would force remedial Government action, regardless of deflationary consequences.

The initial recovery in business profits has been relatively rapid, but there is no reason to think that the annual rate of long-term growth will be greater than heretofore. In the peak year 1956, total corporate profits had risen less than 1% in six years since 1950. In the same year total profits of manufacturing industries were less than 26% higher than they were in 1950; and net profit on sales was down to 5.3%, from 7.1% in 1950.

The 1959 business outlook remains favorable, but does not add up to a boom. The only boom is in the stock market. Some reports indicate a business slowdown in recent weeks. We continue to suggest prudent common sense and selectivity in portfolio management.—Monday, January 12.



PART ONE

THE STATE OF THE UNION

By James J. Butler,

PRESIDENT Eisenhower's State of the Union Message is a call upon the powers that be, in government and outside of it, to work with him wholeheartedly for the vital purpose of recapturing the sound principles of national thrift practiced in the past, in order to achieve a balanced budget without increasing Federal taxes.

And it can be done, if we all work together honestly, recognizing that what is best for the country will also best serve our own interests. For as any thoughtful person knows, the preservation of our freedoms and the maintenance of the value of the dollar is the stake in the game.

The dollars-and-cents details were left for the Budget Message. For in the State of the Union Message, the President usually only states the problems as the White House sees them, lays the groundwork for the budgetary proposals due a fortnight thereafter, and suggests solutions which the Administrations says it can indorse. This year's message, unusual in some particulars, was read by the President to a Congress and a Nation which already had heard, out of sequence, the figures of topmost interest in the proposed budget — the projected expenditures and the hoped-for Treasury revenues — a budget balanced at $77 billion. Ike's talk therefore was received in the light of known facts which usually are only hinted at in Presidential opening statements. The element of surprise was missing. And the President must have known that he seems to stand with a minority in the declaration that next fiscal year's Treasury receipts will be swelled by a business spurt which, with economy measures seemingly taken for granted, would corral enough tax money to pay for operating costs of government through the 12-month period beginning July 1.

Against Precedent

It was Mr. Eisenhower's seventh State of the Union Message. It was unlike its predecessors in this, among other ways: It was impossible to winnow out of its text the words of defiance which peppered the passages almost from start to finish. The Senators and Representatives found themselves virtually dared to exceed Presidential spending limits. Ike already had broken with precedent in a pre-session announcement that a balanced budget would be sent to Capitol Hill. The President said then, with finality: "The Budget for fiscal 1960 has

now been decided. Revenues and expenditures will be in the general area of $77 billion."

That had not set well with Congressmen who have viewed the making of appropriations and the laying of taxes to be their sole jurisdiction. In that view they are supported by the Constitution of the United States. True, the right of veto is reposed in the Chief Executive: he can rule out an appropriation or a tax rate (assuming one-third of Congress goes along with him), but he cannot declare in advance that a budget has now been decided — and make it stick.

No Holds-Barred Fight Ahead

The President also was inviting legislative revolution when he waded into Congressional prerogative to say: *"Reductions in total spending will be achieved in part by reason of the ending of temporary programs in agriculture, unemployment insurance, and housing.* The Budget will request increased receipts from higher postage rates and gasoline taxes, and some new user charges for Government services, but will not call for general tax increases."

These were not merely unfortunate choices of language or confusion of the "President's Proposed Budget" of government spending. The President had waged a political campaign against the majority then, and now, in control of Congress. He had called them "spenders," and he had pledged unyielding warfare to hold them in check. He had announced his budget recommendations weeks earlier than usual in an obvious plea to the country to make the lawmakers toe the mark. The President's program and intentions were ineradicably on the record and the words he spoke were received in exactly the spirit intended.

There will be changes, many of them, in the program envisioned by Mr. Eisenhower. Fully aware that deficiency appropriations will result, Congress will reduce Presidentially-approved grants to departments and agencies, then add this and more to other proposed projects as well as provide new ones. At the end of the current session it will be possible

"STATE OF THE UNION" — HIGHLIGHTS

THE PROBLEM—"The basic question facing us today is more than mere survival—the military defense of national life and territory. It is the preservation of a way of life. We must meet the world challenge."

ECONOMIC STATUS—"Today the recession is fading into history, and this without gigantic, hastily-improvised public works projects or untimely tax reductions. A healthy and vigorous recovery has been under way since last May."

DEFENSE PLANNING—"We must guard against feverish building of vast armaments to meet glibly predicted moments of so-called 'maximum peril.' We must not be swayed in our calculation either by groundless fear or by complacency."

FOREIGN AID—"I have asked a committee of eminent Americans of both parties to re-appraise our military assistance programs and the relative emphasis which should be placed on military and economic aid."

ECONOMIES—"We can afford everything we clearly need, but we cannot afford one cent of waste. We must examine every item of governmental expense critically. To do otherwise would betray our nation's future."

INFLATION—"Inflation would reduce job opportunities, price us out of world markets, shrink the value of savings and penalize the thrift so essential to finance a growing economy. Inflation can be prevented. But this demands statesmanship on the part of business and labor leaders and of government at all levels."

CONGRESS' SPENDING—"The Constitution entrusts the Executive with many functions, but the Congress—and the Congress alone—has the power of the purse. Ultimately upon Congress rests responsibility for determining the scope and amount of Federal spending."

INTER-GOVERNMENT RELATIONS — "The new committee (to be appointed) would be concerned with living standards of our people, their health and education, their better assurance of life and liberty and their greater opportunities . . . also . . . methods to meet such goals and what levels of government —Local, State, or Federal—should be particularly concerned."

TAX REFORM—"I am requesting the Secretary of the Treasury to prepare appropriate proposals for revising, at the proper time, our tax structure, to remove inequities and to enhance incentives for all Americans to work, to save, and to invest. Such recommendations will be made as soon as our fiscal condition permits. These prospects will be brightened if 1960 expenditures do not exceed the levels recommended."

ECONOMIC STUDIES—"I am establishing a continuing Cabinet group on Price Stability for Economic Growth, to study governmental and private policies affecting costs, prices, and economic growth. It will strive also to build a better public understanding of the conditions necessary for maintaining growth and price stability. Studies are being undertaken to improve our information on prices, wages, and productivity."

PRIVATE FOREIGN INVESTMENT—"Private enterprise continues to make major contributions to economic development in all parts of the world. . . . I shall present to this Congress a program designed to encourage greater participation by private enterprise in economic development abroad."

LABOR—"To my disappointment, Congress has failed to act. The McClellan Committee disclosures of corruption, racketeering, and abuse of trust and power in labor-management affairs have aroused America and amazed other peoples. They emphasize the need for improved local law enforcement and the enactment of effective Federal legislation to protect the public interest and to insure the rights of economic freedoms of millions of American workers. Half-hearted measures will not do. I shall recommend prompt enactment of legislation."

for President Eisenhower and the Democratic leadership in Congress each to accuse the other of throwing the buget out of balance. And each will prove the point by citing instances in which spending proclivities of the other were chained down.

Within the Two Parties

Not since the days of Franklin Delano Roosevelt had a President faced a Congress whose numerical control was so firmly in the grip of a political party other than his own. If he was aware of it, Ike made no concession that there can be tipping over the budgetary apple-cart without participation by members of his Republican party. Large as their numbers are in both Houses of Congress, the Democrats do not have enough votes to override a Presidential veto on straight party line. He has the balance of power on vetoes, but only as a holding strategem. If he thinks the Democrats are appropriating too much money he can stop it — assuming the "spenders" are all within one group, not flooding over into the Republican side of the aisle.

As he stood on the dais reading his manuscript, President Eisenhower looked up from time to time to glance over the assembly of lawmakers. If this were for purposes of "counting the house" (to use a theatrical term, meaning a manager glancing about to gauge whether paid capacity had been sold), it would have been discouraging to the Chief Executive. He would see organized alignments of "Liberal Republicans" and of "Conservative Republicans." He wouldn't see, as he did in other years, a strong organization of "Eisenhower Republicans." That expression went out early in the 1958 campaign and has all but disappeared from the political glossary. Dwight David Eisenhower is a highly respected President but his political coat-tails have been snipped by the Constitutional Amendment which makes him ineligible to seek a third term. Of course he would see a wide cleavage in the Democratic ranks too. But the demmies, while divided on policies are united in determination to extend the off-year election landslide into a grand-slam, including the Presidency, in 1960.

The President talked as if unconcerned over splits within his party, or with inter-party issues. His words emphatically were addressed to Congress — democrats and republicans. *He was warning both that the power of his office will be arrayed against spenders whatever their label.* Wholly aside from the unwisdom of making the State of the Union Message a partisan document, the suggestion that huge appropriations are supported by one political party and rejected by the other doesn't square with the facts of recent history — or, for that matter, with announced plans for the future. Ike is familiar enough with the roll-call votes of last year's session to know this: he has spoken out in castigation of party-men who, he said, deserted the White House program — even threatened to withold his indorsement of their candidacies for re-election.

Call to Stand Up and Be Counted

As the Message unfolded it was clear that the President was demanding of Congress that its members stand up and be counted either on the side of a balanced budget, or in favor of spending beyond the prospective income of the Treasury. The line of demarcation was his, and he was accepting the responsibility. *There is a core of republican conservative voting strength, plus Senator Harry F. Byrd and democrats of his fiscal persuasion, who say it is possible to balance the budget at $77 billion; there are some who say balance is possible but will require reductions in spending which are not now in sight, or sharply increased taxes. And there are others (the most vocal group of all) who will argue that a balanced budget is not within reach except at the cost of crippling curtailments in Federal services plus confiscatory tax rates.*

The consensus insofar as it is possible to compile one in the first week of a session is that *additional federal revenue must come from sources now escaping taxation,* that some operating economies are possible but that they cannot run into the billions needed to obviate deficiency appropriations next year, and that the democratic majority does not consider the November election sweep "a mandate to create part-time government." If the alternative must be spending with all the damning inflection which the President has injected into the term, then that is what's ahead.

World Affairs

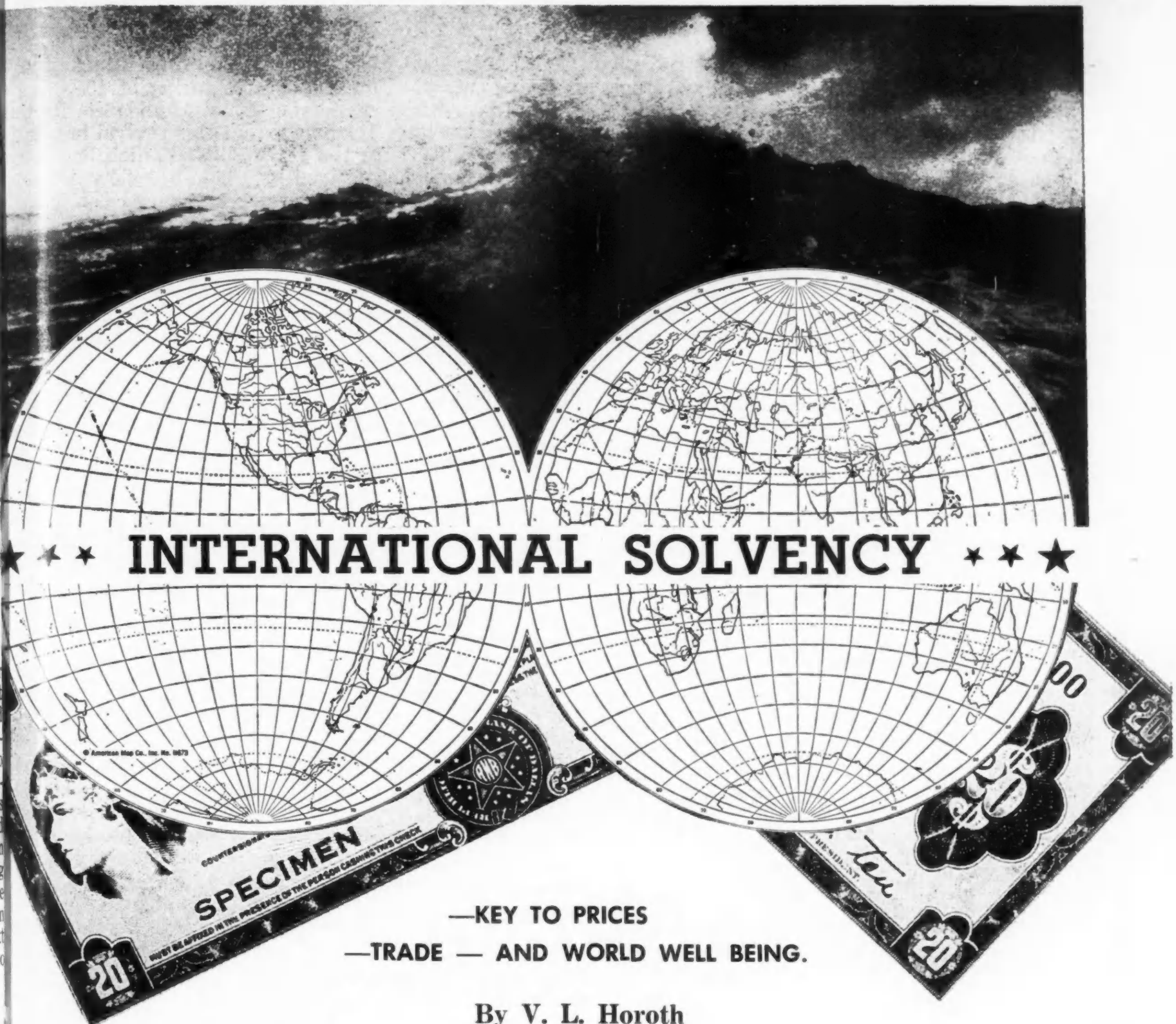
The Message followed a pattern found in similar documents over almost a score of years in that it related the State of the Union to world affairs and found eternal vigilance the price of peace and preservation. Agreements with Russia were likened to useless scraps of paper, unless backed by self-enforcing mechanisms. But Ike assured the Congress (and the Nation) that this country's defense and retaliation force is strong and ready, on land, on sea and in the air. Russia's progress in conquering space was not discounted, but assurance that he does not intend to lower the guard was implicit in the comment that the budget he foresees for the next Fiscal year will allocate 60 per cent of its total to national security programs.

Defense Not Sacrificed to Balanced Budget

What such a budget contemplates and why it must be so huge was limned in reminders that *it costs $35 million to place a single ATLAS* on the firing line; the *missile program* this year will *cost close to $7 billion; more billions* are being spent in what might be called *preliminaries to the "big shoot" — research, development,* test and evaluation of new weapons; *atomic submarines cost* at least *$50 million apiece* and some types run *three times that figure;* fighter aircraft now in use costs, in some instances, as much as *50 times the tag on a World War 2 craft;* we are buying bombers that "cost their weight in gold."

Having made this answer to the contention that defense is being regulated by budget-balancing aspirations, the President moved on to counsel that balance and perspective must be kept in mind, duplication of weapons and forces avoided, that groundless fears and complacency are twin evils, and that the rapid progress of weaponry speeds obsolescence and demands systematic planning.

On the basis of those facts, Congress was told the defense budget for next year is planned. It seemed to tear up the price tag as a governor on the speed of spending, but *(Please turn to page 448)*



INTERNATIONAL SOLVENCY

—KEY TO PRICES —TRADE — AND WORLD WELL BEING.

By V. L. Horoth

THE currency reshuffle in Western Europe that took place over the last weekend in 1958 may some day be considered, along with the September 1949 devaluations, one of the milestones in the post-war economic development of the Free World. Primarily it was intended to moderate the trade discriminations that were bound to arise as a result of the active operation of the Common Market and the dissolution of the European Payments Union. But the rather dramatic decision to devalue the French franc and to give greater monetary freedom to the currencies of eleven Western European nations — Britain, France, Germany, Netherlands, Norway, Italy, Sweden, Denmark, Belgium, Luxembourg and Portugal — is bound to be followed by a chain reaction, the full implications on trade of which are still difficult to assess. Certainly the outlook for a re-expansion of the world economy and the growth of international trade has brightened. As a result of the currency reshuffle, the tenor of this article, planned to survey currency problems around the world, has had to be changed.

A number of interpretations may be read into these monetary moves. It can be said that Western Europe served notice on the rest of the world that it is now ready to use its resources to restimulate world trade. This has far-reaching implications. Western Europe's postwar dynamism has been an important force behind the growth of the Free World in general. Western Europe also gives much greater support to the raw material producing countries than does the United States. This is because of its greater dependence on imports of raw materials and foodstuffs.

The monetary reshuffle is evidence, too, of the importance that Western European countries now attach to the stability and free convertibility of their currencies. By making the pound sterling and other currencies more attractive to traders outside of Europe, London and other European financial centers are making still another bid for financing an increased share of world trade.

September 1949 was a milestone because the Western European countries decided at that time to take a realistic look at their over-valued currencies. A sweeping devaluation followed. Europe's competitive position improved overnight, and the repatriation of European capital helped to stream-

line and expand the European industrial plant. When, a few months later, after the outbreak of the Korean War, American industries became preoccupied with armaments, Western Europe was able to step in and recapture a sizable portion of the world trade it had lost during the war.

There is no doubt that Western European countries are attempting to improve their competitive position in world markets at the very time when our competitive position has received a setback in many lines. If world trade expands as a result of greater currency freedom and the lowering of tariffs under the Rome Treaty, then the United States too should benefit from it.

Improved Position of European Currencies

It will be remembered that in the summer of 1957, when Western Europe was extricating itself from the aftermath of the Suez crisis and when a boom stirred inflationary pressures in a number of countries, there was much talk of revaluing certain European currencies. The *pound sterling* in particular was thought to be in poor shape. Great Britain was losing gold and seeking support from the International Monetary Fund and the U. S. Treasury. Home demand was eating into exportable surpluses of goods. There was a flight away from the pound, especially into the *German mark,* which was considered to be undervalued in relation to other currencies. The inflow of speculative capital made the German situation look stronger than it really was.

Subsequent events proved to be a great disappointment for international currency speculators. Courageous monetary and fiscal measures by the British authorities slowed the growth of the country's economy, checked inflationary forces, and gained for Great Britain a greater freedom of action to reshape its economy. Smaller imports and lower import

Latin-American Exchange Rates in 1958
National Currencies per Dollar

	Argentine peso Free Rate	Bolivian boliviano Selling Rate	Brazilian cruzeiro Free Rate	Chilean peso Trade Rate	Chilean peso Tourist and Capital	Colombian peso Free Rate	Peruvian sol Free Rate	Uruguayan peso Free Rate
Dec., 1957	37.0	8,565	90.5	690	773	6.2	19.1	4.7
Jan., 1958	37.4	8,825	97.5	717	795	6.8	20.8	5.1
Feb.	38.3	8,875	99.5	725	821	6.9	22.6	5.1
Mar.	39.5	8,855	106.8	746	916	7.2	23.0	5.7
Apr.	42.3	8,855	120.8	757	980	7.6	22.8	6.5
May	42.2	8,855	122.0	777	1,175	7.6	23.1	6.2
June	42.4	8,855	132.8	793	1,073	7.8	23.9	7.1
July	43.5	8,855	134.0	808	1,097	8.2	24.4	6.8
Aug.	46.7	9,145	159.5	808	1,112	7.7	24.6	7.3
Sept.	54.1	11,200	156.3	808	1,030	7.7	24.8	8.4
Oct.	73.0	11,460	140.8	818	991	7.9	25.0	9.7
Nov.	71.7	11,490	136.3	838	1,045	8.1	25.5	10.6
Dec.	69.7		140.5	993	1,115	8.2	24.9	10.5

prices helped to strengthen Britain's international payments position, and by the spring of 1958 there was a revival of international confidence in the pound sterling. To some extent this revival has been at the expense of the *U. S. dollar,* which has come under suspicion. Helped by a capital inflow, London regained much of its former importance as one of the world's banking centers. Its position will now, of course, be further enhanced by the unrestricted convertibility of the pound for nonresidents.

Even more impressive than the strengthening of the *pound sterling* has been the recovery of the *Dutch guilder;* again this has been due to drastic disinflationary steps and improvement in terms of trade — the relation of the prices received for exports to the cost of imports. From a possible candidate for devaluation, the *Dutch guilder* has in a period of less than one year once more become one of the strongest currencies on the Continent. The *Danish krone* is still another example of a currency that fooled the devaluation Cassandras. However, there is still some apprehension in Denmark and also in the Netherlands lest the recent efforts to stimulate business may also have given impetus to latent inflationary pressures.

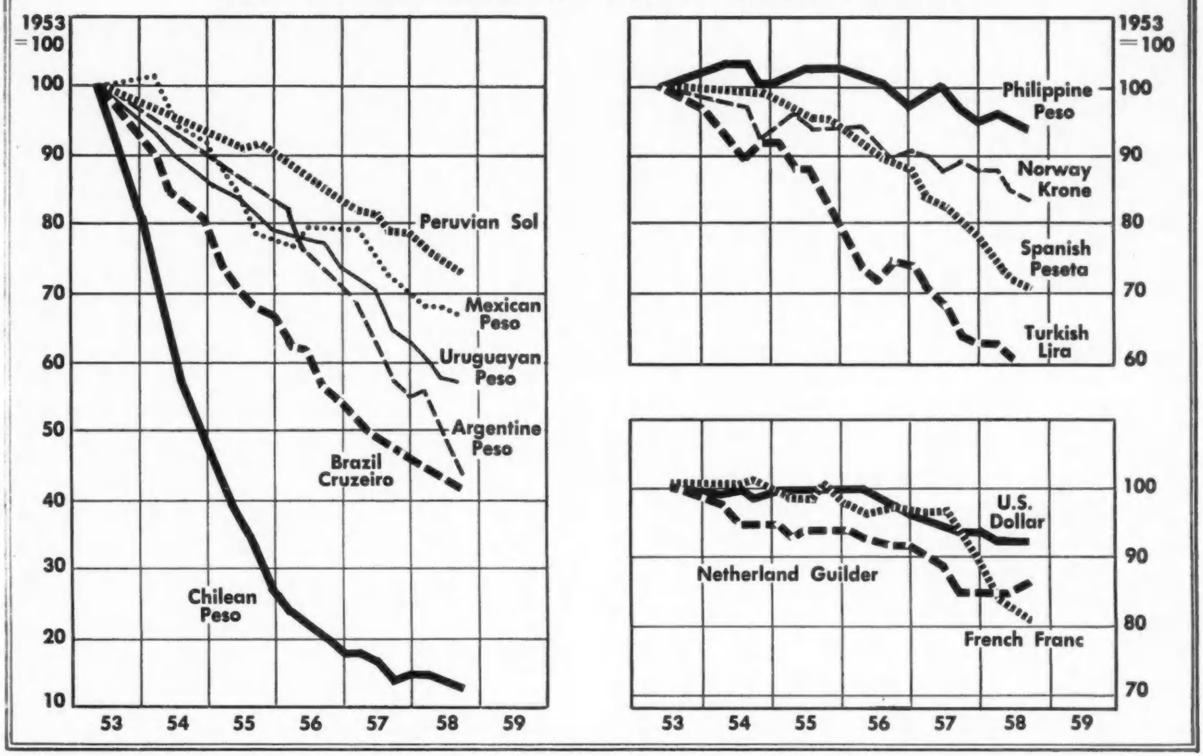
Weak Sisters Among Western Europe's Currencies

Until the 15 per cent devaluation decreed by the De Gaulle administration, French costs and prices were running at about 10 to 15 per cent above the European average. Since last June when the present regime took over, confidence in France's future has begun to reassert itself; the rush into goods has slowed down, savings have increased, and the competitive position of some French products has improved.

While the war in Algeria will continue to sap France's energies, the devaluation should help to bolster up the country's international payments position. Most important of all, however, is the attitude of the French public which seems to be in a mood to accept austerity as the price to be paid for the removal of the ever-present threat of repeated currency crises. Six devaluations since the end of the Second World War have reduced the value of the 100-franc note from about 2 dollars in 194[illegible] to 20 cents at the beginning of 1959. In recent years France has outstripped other European countries in economic growth; some slowdown will now, probably occur.

Finland's markka continues to be rather weak despite the fact that the 28 per cent devaluation in 1957 encouraged Finnish exports to the West. But the slowdown of the Free World's trade has forced Finland to seek more trade with the communist East. The Soviet Union is now deliberately sabotaging its trade with Finland—to bring about a change in the present adminstration in Helsinki—by refus

Decline in the Purchasing Power of Selected Currencies



ing to accept deliveries of ships and engineering products. Meanwhile, Finland, which has to buy steel and other raw materials from the West, has run down its holdings of hard currencies.

Despite disguised partial devaluation in recent months, the *Spanish peseta* is likely to weaken further. Outwardly Spain is making great progress; industrial production has almost doubled since 1950. But too much is being attempted too fast. Available Spanish resources are still insufficient to support extensive U. S. base construction, over-ambitious Spanish government investment programs, and, to provide at the same time, for the expanding demand for consumer goods. Inflationary pressures are mounting and the purchasing power of the peseta, is declining—more than is indicated by official price indexes. Further downward adjustment in the peseta is likely. In recent months a clandestine flight of capital was reportedly uncovered, involving some $200 million, or nearly four times the amount of Spain's official gold reserves.

South Asia—A Chronic Breaker of Economic Rules

A situation analogous to that in Spain exists in a long list of countries stretching all the way from the Bosporus to beyond the Straits of Malacca. Most of these countries are trying to accomplish too much on a shoestring. Industralization at any cost is a fetish, even if it distorts and weakens their economies. Many of these countries have neglected their export industries and have concentrated on capital projects that are not immediately productive, or on industrial enterprises intended eventually to conserve foreign exchange. Most of these development programs suffer from bad-planning, bureaucracy and a chronic distrust of foreign capital. And they have broken practically every rule that governs economic development.

The *Indian rupee*, the *Pakistani rupee*, the *Ceylonese rupee*, the *Indonesian rupiah*, and the *Burmese kyat* are all weak currencies but not likely to be tampered with for the time being. There is, however, some question of the future of the *Turkish lira* and the *Philippine peso*.

Had it not been for extensive bail-out operations last summer, the Turkish economy would have ground to a halt for lack of fuel, raw materials, and equipment. A part of the stabilization package-deal was the devaluation of the *Turkish lira* from 5.5 to 9 per dollar. There is some question whether even the new official rate reflects the true internal purchasing power of the lira, which on the free market sells at around 15 per dollar. The clue to the future of the lira is Turkey's ability to export as well as to keep down budgetary deficits, incurred largely because of burdensome defense outlays.

There is growing skepticism about the *Philippine peso*. As elsewhere, the drop in export prices and the slowdown in world trade have complicated the balancing of Philippine international payments despite earlier drastic import restrictions. But the corrective measures never *(Please turn to page 440)*

PART TWO

1959
Outlook for Leading Industries
—Which offer best prospects

By GEORGE W. MATHIS

IN PART I of this report, which appeared in the previous issue of *The Magazine of Wall Street* we discussed the general economic and political climate that will set the stage for business activity in 1959.

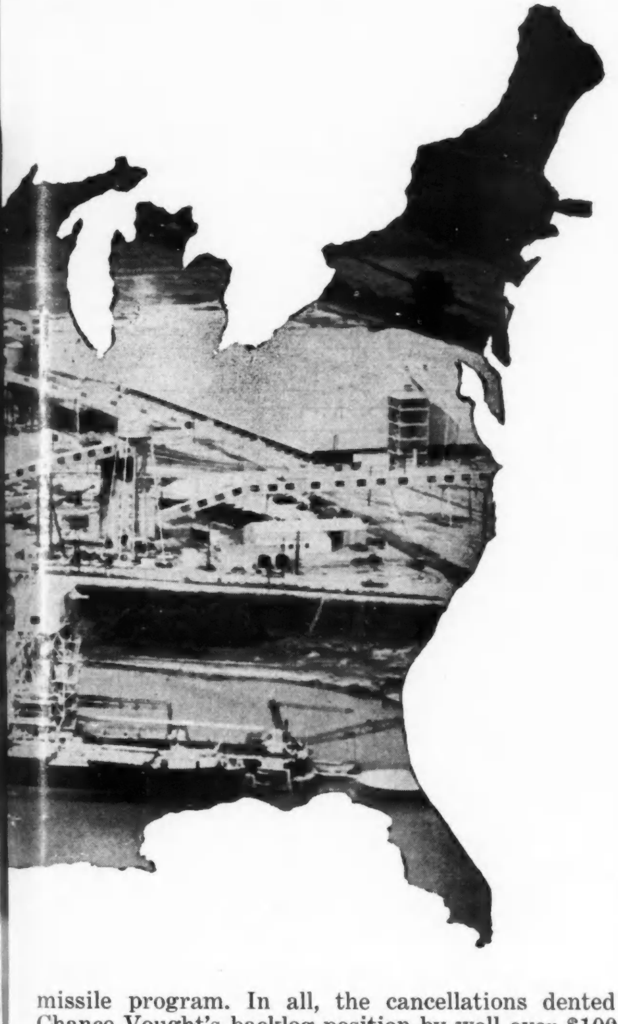
Capital spending will remain well below its 1957 high of $37 billion, but despite the President's attempts to hold federal spending down, outlays for defense and other governmental obligations may effectively offset the lower level of private capital spending.

The renewed tension over Berlin, scheduled to come to a head by June, 1959 appears to assure no let up in our defense efforts, while the very recent Soviet success in shooting a rocket beyond the moon can be expected to call forth new demands from Congress that the U. S. catch up and surpass Russia in space-age technology.

Against this backdrop, we continue, in this issue, our analysis of the prospects for leading industries in the year ahead.

Aircraft — The stubborn persistence of international tensions suggests that defense expenditures will not be cut back too far in the foreseeable future. The aircraft industry, therefore, appears assured of a steady, and possibly mounting volume of business in the year ahead. But although the total funds allocated to the industry will remain high, it is equally certain that the portion alloted to each of the aircraft companies will vary widely. What is more, each of the corporations will face the constant threat that rapid technological obsolescence will kill off one or more of its major revenue projects.

In typical fashion, Chance-Vought recently lost a coveted navy fighter plane contract, and in the same week the Navy also cancelled the company's *Regulus*



missile program. In all, the cancellations dented Chance-Vought's backlog position by well over $100 million and caused the immediate layoff of thousands of workers.

Shortly thereafter, General Dynamics, one of the most important producers in the industry, was notified that its *Hustler* B-58 bombers were being phased out and that the Air Force would not renew its contracts for additional planes. This is of special significance because less than a year ago the *Hustler* was considered the most advanced bomber in our entire arsenal. The pill was not quite as bitter for General Dynamics, however, since the sensational success of its Atlas missile, now orbiting the globe, assures the company of a full scale production contract for the most advanced ICBM.

Another potential source of instability for the aircraft producers is the rising volume of missile business that is being allocated to non-aircraft companies — and especially electronics companies. The airplane companies recently launched a counter-attack against this policy by requesting that the Pentagon decree equal wage rates in the electronic industry when missile contracts are awarded. It is felt, and with some justification, that the large wage differential existing between aircraft and electronics workers has allowed the non-aircraft companies to underbid the plane makers. How successful the latter will be against a cost-conscious administration is impossible to predict, but there is apparently a major battle shaping up between the two industries.

The major airframe producers, such as Douglas, Boeing and General Dynamics are insulated against wide fluctuations in military contracts by their huge civilian orders for jet transports. As such, their positions are somewhat more secure than the purely defense companies that represent the major part of the industry. Similarily, United Aircraft appears well situated by virtue of its dominant role in jet engines. Serious inroads have been made in this field by General Electric, however, making it essential to view the engine maker with some caution. On the whole the shifts and cancellations of government orders make the aircrafts rather speculative.

Airlines — The airlines should be one of the most puzzling groups for investors to appraise in 1959. Almost without exception the companies will begin to report improving earnings, and official statements from airline officials will be more optimistic than ever before. The reversal of the gloomy atmosphere that has pervaded the industry for so many years has a simple explanation, however. The companies must finance huge jet-transport purchases and in most instances they will have to float new stock in order to qualify for the loans they require. A barrage of more favorable statements would provide the opening artillery in this program.

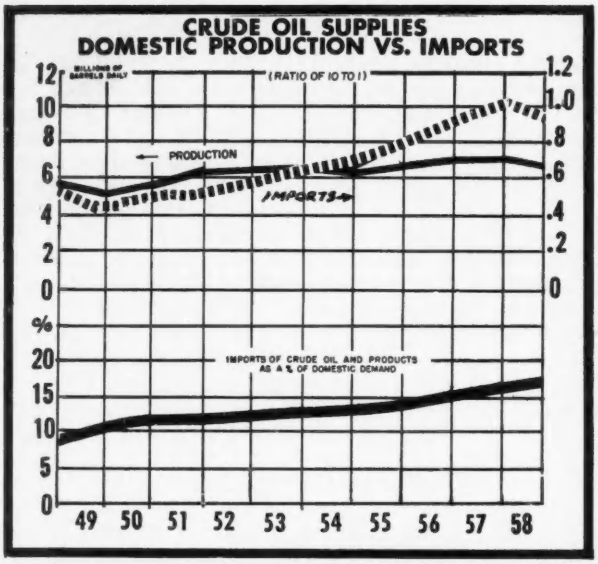
But that is not all. A CAB ruling some months ago allowed the air carriers to shorten their depreciation schedules — a concession the lines have been seeking for a long time. Instead, however, the companies have been reporting their most recent earnings figures with 15-year depreciation periods. The net result is, despite higher tax liabilities, more attractive earnings per share.

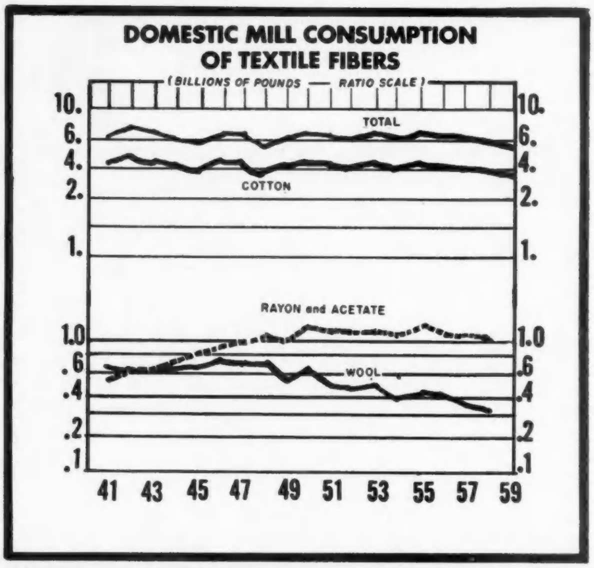
How formidable the new financing problems are can be seen from a few known figures. Northwest Airlines has just announced a $64 million jet program, and TWA will shortly announce one for $313 million. American, Eastern and United have already arranged almost $700 million in financing, and the rest of the industry still needs an equivalent amount.

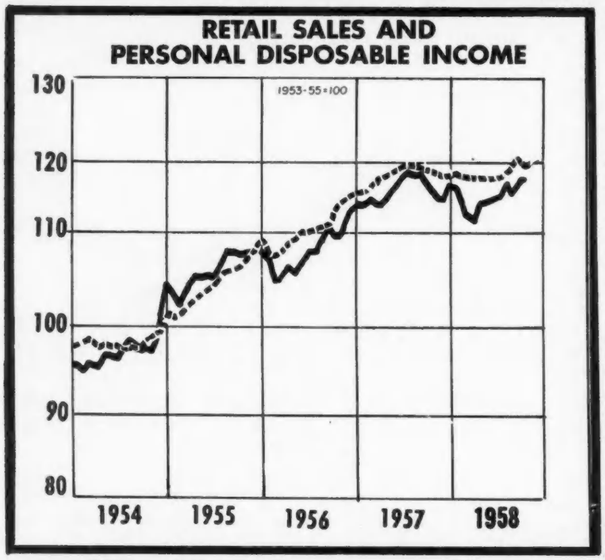
Their problems are complicated, however, by seriously depleted working capital positions and strangely enough by the fact that airline shares have slightly outpaced the general market during 1958. While this should be no cause for sadness, it may make investment advisors reluctant to recommend new airline stock flotations.

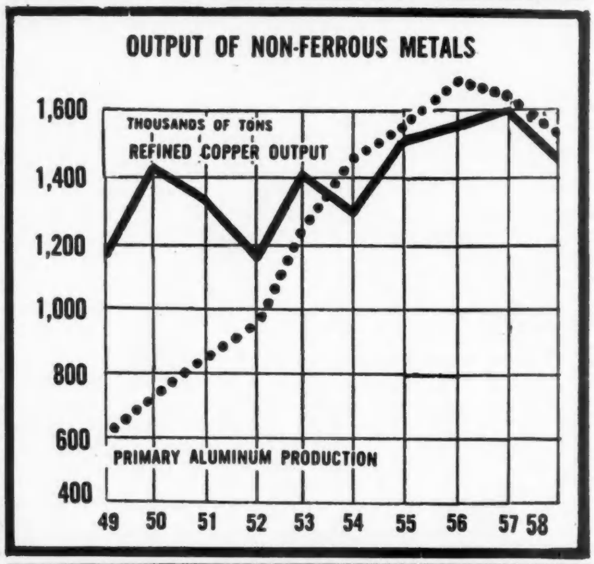
Operationally, the lines appear well situated. With major strikes out of the way (except for American Airlines) at this writing, the growth of traffic so evident in 1958 should extend into 1959. Moreover, some rate increases to supplement the 6 percent rise granted in mid-1958 seem assured. Nevertheless, their formidable financing difficulties make the stocks highly speculative in the year ahead.

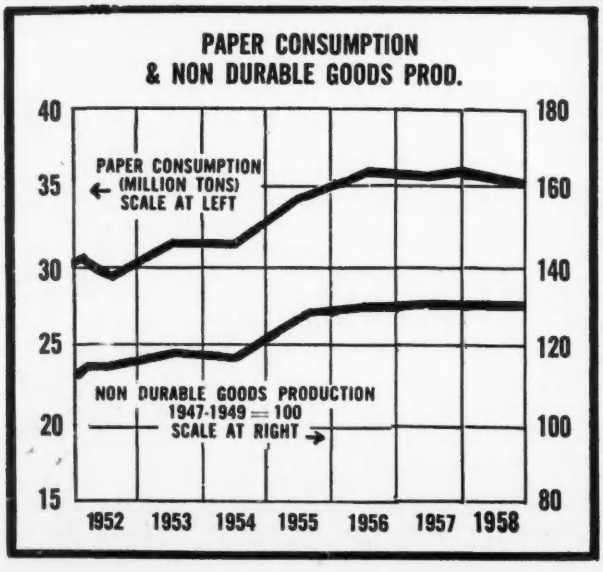
Paper — Overcapacity hit profits in the paper industry in 1958, but still things were not as bad as they might have been. Despite idle capacity, prices of most paper products generally remained firm. If they had receded, 1958 could have been a disastrous year. For wages, continuing to rise, and the burden of heavy depreciation charges for the new plants constructed in 1957 combined to erode profit mar-

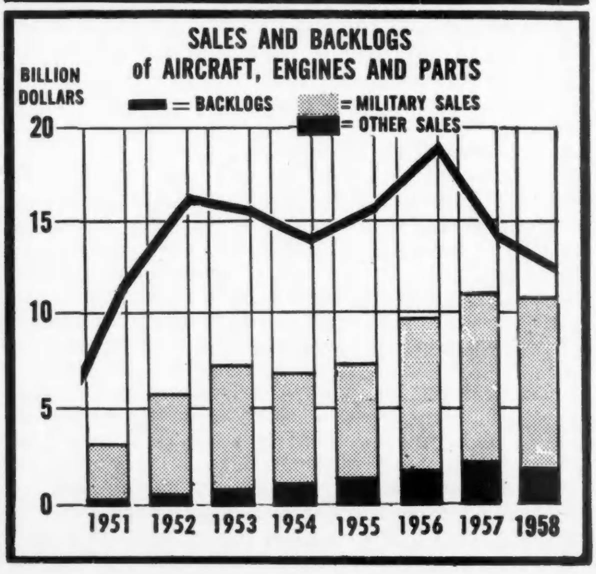

CRUDE OIL SUPPLIES
DOMESTIC PRODUCTION VS. IMPORTS
(RATIO OF 10 TO 1)
PRODUCTION
IMPORTS
IMPORTS OF CRUDE OIL AND PRODUCTS AS A % OF DOMESTIC DEMAND
%
49 50 51 52 53 54 55 56 57 58


DOMESTIC MILL CONSUMPTION
OF TEXTILE FIBERS
(BILLIONS OF POUNDS — RATIO SCALE)
TOTAL
COTTON
RAYON and ACETATE
WOOL
41 43 45 47 49 51 53 55 57 59


RETAIL SALES AND
PERSONAL DISPOSABLE INCOME
1953-55=100
1954 1955 1956 1957 1958


OUTPUT OF NON-FERROUS METALS
THOUSANDS OF TONS
REFINED COPPER OUTPUT
PRIMARY ALUMINUM PRODUCTION
49 50 51 52 53 54 55 56 57 58


PAPER CONSUMPTION
& NON DURABLE GOODS PROD.
PAPER CONSUMPTION (MILLION TONS) SCALE AT LEFT
NON DURABLE GOODS PRODUCTION 1947-1949 = 100 SCALE AT RIGHT
1952 1953 1954 1955 1956 1957 1958


SALES AND BACKLOGS
of AIRCRAFT, ENGINES AND PARTS
BILLION DOLLARS
= BACKLOGS
= MILITARY SALES
= OTHER SALES
1951 1952 1953 1954 1955 1956 1957 1958

gins substantially. Under the circumstances, price increases would have been most welcome, but low demand made this impossible, especially in the early months of the year.

The industry enters 1959 in much better shape. For the past several months production has trended upward and, in fact, it now appears that total figures for 1958 will be less than 5% under 1957 production. By contrast, over-all industrial output receded about 11% in 1958. This recovery has removed all danger of price cutting in the industry in coming months. Whether prices advance is another matter, but in all probability earnings will expand under the impetus of higher sales. Favorable factors over the longer term include most paper companies' extensive forest holdings and their expanding product diversification.

Paper stocks have, however, enjoyed a substantial recovery in the market, indicating that much of the expected earnings improvement has been discounted. Accordingly, unless price increases do ensue, the stocks look rather fully valued.

Non-ferrous Metals — The resurgence of industrial production should aid the non-ferrous metal producers in 1959, although many of their basic problems will remain unsolved. Copper producers in particular should enjoy a more stable price structure now that the two-year price decline has ended.

In part the recent price stabilization results from labor difficulties in Chile and South Africa, which curtailed supply at a time when demand was low, but since summer the industry's entire economic structure has improved noticeably. In fact, Kennecott, which last August was producing at only two-thirds of capacity on a four-day week, is now back to a full seven-day schedule at some mines, and Phelps-Dodge has restored most of the cutbacks it instituted earlier in the year.

At the same time the domestic price of copper has climbed from a poverty level of 25¢ per pound to a more respectable 29¢ at the moment, with chances good for a further 1¢ advance.

Profits for the domestic producers should therefore improve in the months ahead. It should be borne in mind, however, that other countries are also swinging back into full production, and increasing supplies will inevitably tumble prices once more if overall industrial production falters either at home or in the principal industrial countries of Western Europe.

The aluminum companies suffered a 10% decline in shipments in 1958, arresting the admirable growth trend that had been established through most of the post-war period. For the domestic companies, the recession was the main culprit, but for Aluminium, Ltd., the Canadian Goliath, Russian competition in world markets also played a significant role. The Soviet has since backtracked in the market, but there is no assurance that she will not return.

Earnings declined sharply with curtailed production but in most instances the companies scored excellent cost-control gains, indicationg a sharp profits pick-up as volume increases. The upturn is likely to be slow, but new uses for aluminum constantly being developed could spark a more vigorous recovery. In fact, stories out of Detroit hint of a feasible and economical aluminum block for automobile engines. If these prove true, the industry could resume its growth trend quickly. Nevertheless, most stocks in the group are high, making speculation on such prospects risky.

Petroleum — Rising demand for petroleum products as the recession ended held out the promise of improved profits for most of the oil companies in the year ahead. However, Venezuela's suddenly imposed 60-40 tax law threatens the diversion of a greater share of the internationals' earnings into the pockets of the tax collectors. Existing 50-50 contracts in Middle Eastern countries have previously been considered secure, but now there is concern that other countries may be influenced by Venezuela's bad example.

This problem adds to the difficulties imposed upon the internationals by the "Voluntary" Import Quota system. This system, despite whole-hearted cooperation by the industry, has been a failure, and it is doubtful whether it can succeed even with sweeping changes to be made this month. The whole program has been extremely costly for the importers.

While troubles abroad normally redound to the advantage of low cost domestic producers, and should accelerate exploration and drilling in the tidelands, in general the petroleum producers appear to be in for another troubled year. Since the stocks have been laggard, however, many of them may not be at all overvalued.

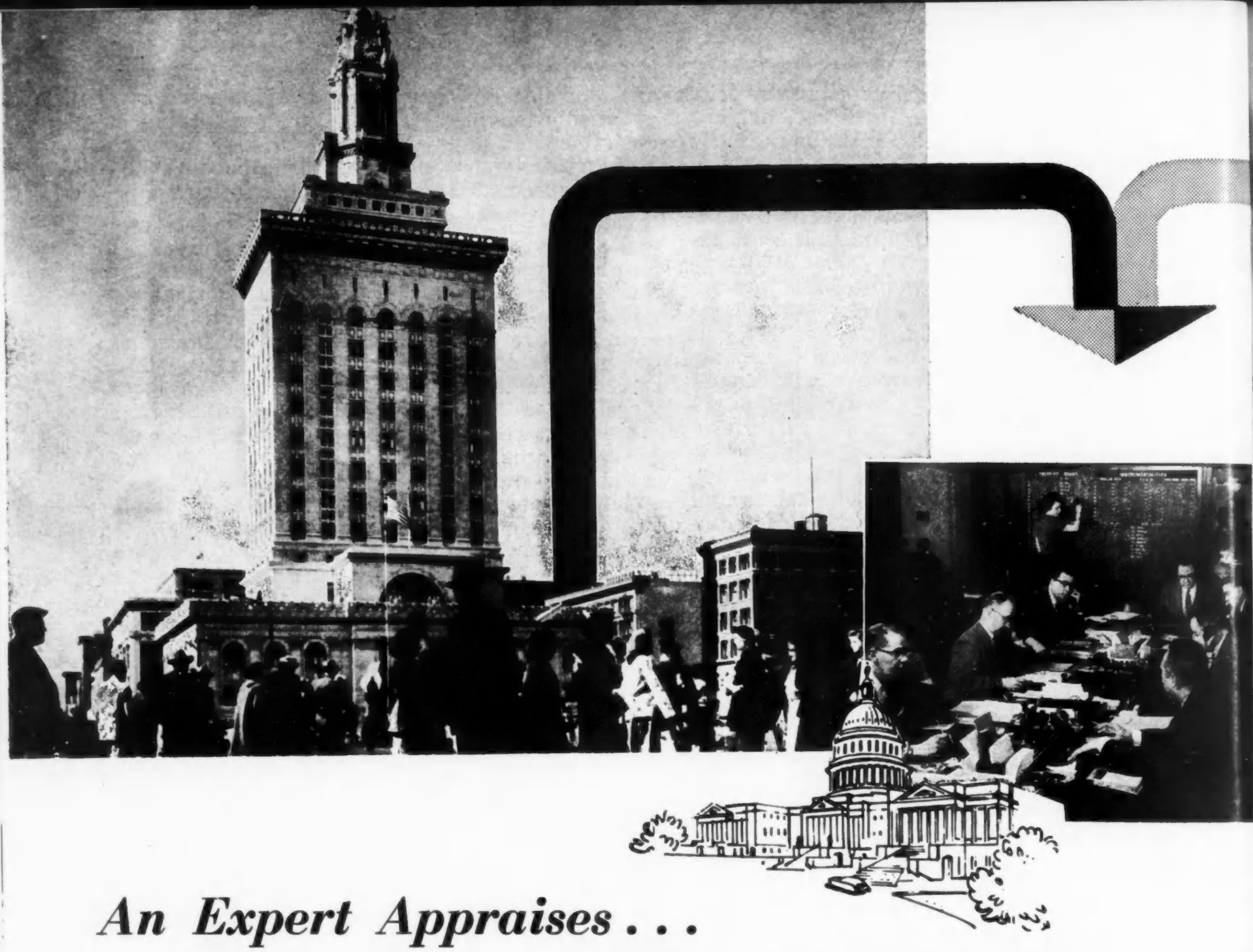
Drug Industry — Probably no other industry has transformed research into profits as quickly as the drug industry. As a result, the shares of these companies were among the market leaders again in 1958, as they were in 1957.

In the year ahead, success will be even more closely keyed to research advances. For the industry has refined its techniques to a point where almost any development by one company can be quickly duplicated by others, making it essential to reap profits quickly before similar products hit the market.

Most encouraging for the drug manufacturers was the fact that the recession had little effect on volume and profits, indicating that a ready market exists at almost all times for the record outpouring of new drugs. Equally encouraging is the rapid growth of foreign operations which gives promise of keeping volume and profits at record levels for the next several years at least. Nevertheless, the stocks are now selling at their highest relative prices in history and the rapid obsolescence of many new drugs, investors must remember, can cause the fortunes of individual companies to change with lightning speed.

Merchandising — 1958 proved with no room for doubt that a burgeoning population will spend record amounts for food and soft goods even in a recession. As a result, the nation's merchandising organizations enjoyed a booming business year, topped off by a record-breaking Christmas season. Despite the recession, total retail sales climbed to a new high, and department store profitability expanded as automatic techniques and cost reduction methods were advanced further.

Most of the major *(Please turn to page 444)*



An Expert Appraises . . .

THE 1959 BOND MARKET

By MICHAEL STEPHEN

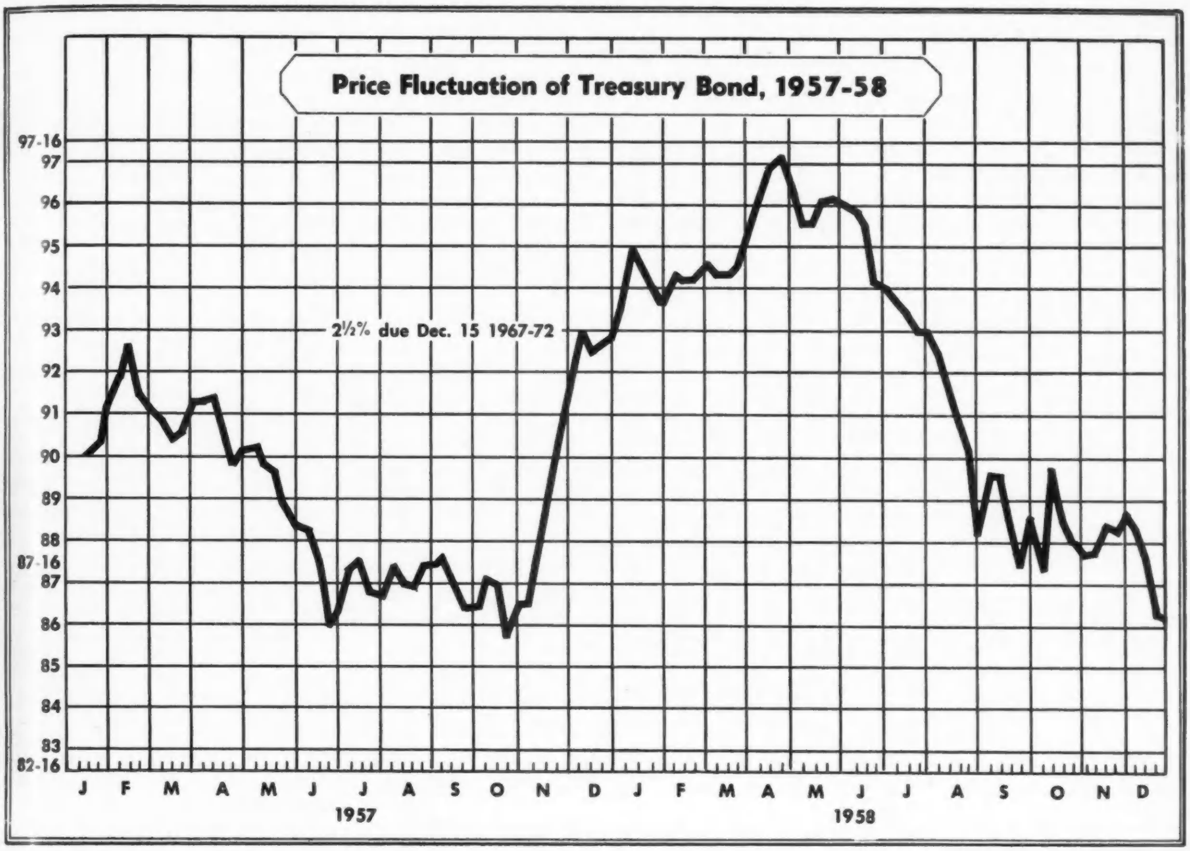
- **A professional analysis of the bond market from its rise in 1955 — its near collapse in 1958 — what's ahead for 1959 — in government and corporate bonds.**
- **Forecasting business outlook — in its relation to bond prices and interest return.**
- **The money market — coming liquidity squeeze — and Federal Reserve credit policy.**
- **Budget and treasury financing — new long term offering.**
- **Kind of bonds to buy — with special selection of (1) treasuries . . . (2) corporate bonds . . . (3) tax exempts . . . (4) Canadians — suitable for investment in 1959.**

THE investor has good reason to be perplexed as he ponders the outlook for bonds in 1959. The year just past saw the normally staid and respectable bond market go through gyrations more characteristic of the stock or commodity markets, as the general public found out, for the first time in history, how easy it was to speculate in bonds. Fortunes were made and lost.

It all started towards the close of 1957. The economy was in a downswing, the supply of new bonds was expected to decline, banks were figured to use loan repayments to bid aggressively for outstanding bonds, and the Federal Reserve was expected to supply banks with all the reserves they needed to buy bonds and drive interest rates down and encourage economic recovery.

Everything went according to plan at first. As the chart shows, the Treasury 2½s due in December 1967-72 rose from a low of 85⅝ (yield 3.75%) in October 1957 to a high of 97¼ (yield 2.72%) in April 1958. In six short months anyone who had bought Government bonds on the customary 5 point margin more than tripled his money.

But then the tide turned, fooling even the experts. As a matter of fact, as late as June professional money managers joined greenhorn speculators in a scramble for new 2⅝ and 3¼% Treasury bonds on the theory that a new crop of capital gains could be reaped. Ironically, this was just the time when the economic weather was changing rapidly, if not obviously, and the new climate was bearish for bonds. The near-panic in the bond market from June to September reflected a rapid recovery in business activity, fears that this would bring a sharply more restrictive Federal Reserve credit policy, growing apprehension about the Treasury's



ability to finance a mushrooming $13 billion deficit and the resurgence of an almost pathological inflation psychology.

As the chart shows, the 2½s of December 1967-72 have dropped back around their 1957 lows, to the cheapest prices on Treasury bonds since shortly after World War I. The 1957 lows came only after the biggest capital boom this country has ever seen, and produced tremendous demands for funds which forced the Federal Reserve to adopt the most restrictive credit policy in more than twenty-five years. Now, with bond prices just as low, the economy is only in the beginning of recovery. The question is whether this means that the decline in bond prices has gone too far. In short, have bonds again become a buy?

It is true that the bond market traditionally goes to excess, on optimism and pessimism alike. Up until last June only optimism was in the air, and rising prices seemed to bear it out. Then, as the market declined, pessimism took over. Hardly anyone could see a bottom to the decline.

Now another swing toward optimism may be getting underway. In November a widely respected authority tersely told its clients, under the heading "Bonds Again A Buy" that: "Just when the stock market is accumulating risks, the bond market seems to be shedding them. Bond yields now appear sufficiently generous and prospects for a several-point gain in bond prices sufficiently good to warrant placing in bonds funds released by stock sales at this time."

It is not hard for a superficial observer to find encouraging signs in the bond market outlook. The speculative positions of last spring and summer have largely been liquidated. The business recovery is not likely to move as fast in the months ahead as it has since the April low. The Administration is presenting the federal budget position in a more optimistic light. The Consumer Price Index is steadier than it has been for several years. There is even some feeling that continuing high unemployment and the victory at the polls in November of the Democrats (regarded as the Party of easy money) will prevent the Federal Reserve from imposing more than mild restraint on credit.

On the other hand, all of these assumptions need critical examination. And, it is worth remembering, since 1946 interest rates have been on a rising trend, bond prices on a declining trend. A look shows that in the recovery from the 1954 recession interest rates on new high-quality corporate bonds rose from a 3% level to about 4⅞% at the peak of pressure in 1957. A comparable move in the current recovery would raise corporate bond rates to a 5¾ to 6% range. Should this happen, Texas Company's 3⅝s sold in April 1958 would drop from their current price of 92 to the low 70's.

The astute investor will want to review the fundamentals of bond market behavior before taking action. The course of bond prices is influenced by investor psychology but the basic forces are business activity and need for funds, Federal Reserve credit policy, Treasury debt management decisions, the flow of savings available for investment, and the ability of the banks to meet credit demands.

The Business Outlook

The most important comment on the business recovery is that it has gone far enough to make any relapse into deep recession unlikely. The Federal Reserve Board's index of industrial production has risen from a low of 126 last April to 141 in November and probably touched 143 or 144 in December, within 2 or 3 points of the 1957 record peak. The Gross National Product (GNP) which had dipped from a prerecession rate of $446 billion a year in the third quarter of 1957 to $426 billion in the first quarter of 1958, bounded back to a $453 billion annual rate by the fourth quarter of 1958.

At the same time it must be admitted that the recovery from now on will probably proceed at a somewhat slower pace. No one expects the industrial production index to hit 174 by next December, as it would if business activity were to continue to advance at the same pace. Nor, despite the optimistic projections of Federal Government economists, is the GNP likely to go through $500 billion (in 1958 prices) for 1959 as a whole.

► *It is hard to identify the sectors of the economy which could produce a business boom in 1959. A mainstay of the recovery has been housing; new home starts rose from an 890 thousand a year rate at the low last March to a 1.3 million rate in November. But this reflected cheap money and special Government mortgage credit for low priced homes—influences which will not provide support in 1959. At the same time the better bond yields now available will tempt investors away from unchanged net yields of 4 or 4½% on Government backed VA and FHA mortgages. The current high backlog of commitments will sustain housing activity for awhile, but new home starts in 1959 will do well to total 1.2 million, below the current rate of building.*

► Business will have to increase production to get inventories back to normal, after a year of liquidation. *But the expansive force of inventory accumulation will be counterbalanced, in part at least, by a continued lag in capital spending.* Productive capacities are adequate or excessive in almost every line. *If the figures on machine tool orders are any guide, it will be many months before corporate plant and equipment spending, now figured to run at a $30.5 billion annual rate in the first quarter of 1959, regains the $37.8 billion peak of 1957.*

► *Meanwhile, President Eisenhower's efforts to balance the fiscal 1960 Federal budget "in the general area of $77 billion," though highly salutary in the longer perspective, represent something of a threat to business in 1959. The effects of the economy drive are already being felt—witness the cancellation of the Rascal, Regulus and Goose missile programs, the Crusade fighter plane and the cutbacks in procurement of Navy ships and Airforce B-58 bombers—and more is yet to come.* Defense Department procurement contract awards, down from $6.1 billion in the second quarter to $2.4 billion in the third quarter of 1958, are likely to go through the 1957 low of $2.1 billion before the rebound comes.

Consumer the Bright Spot

The bright spot in the economy is the consumer. Although the latest surveys show him somewhat disturbed by high prices, his Christmas buying was the biggest on record. The American citizen and consumer, by and large, is in a financially healthy position. Given attractive products at prices he feels are fair, he can be counted on to crowd the markets and salesrooms. The chances are that he will make 1959 a good but not a record automobile year. The fact is that the over-all credit situation is not easy enough to permit car dealers to offer the "crazy credit" which was such a big influence in stimulating the sale of almost 8 million cars in 1955. A likelier figure for 1959 is somewhere between 4.5 and 5 million, not enough to lead the economy into boom.

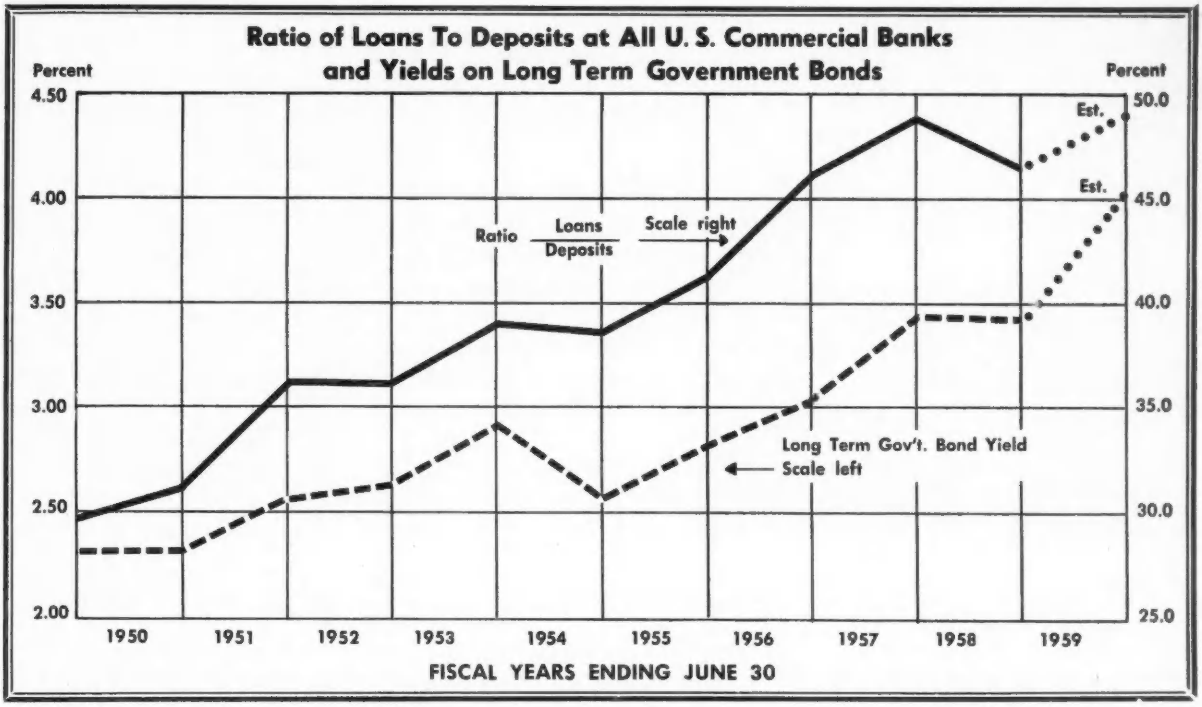
Thus, it seems clear that no 1955-type boom is in prospect for 1959. But it is equally clear that 1959 will be a year of stable business activity. It is true that excessive inventory-building in the first half of the year, in anticipation of a mid-year steel strike, or price increase, could be followed by a reaction in the second half. But by then capital spending may be moving higher to take up slack.

The Coming Liquidity Squeeze

What needs to be realized is that a slackening in the rate of business recovery does not necessarily mean lower interest rates and higher bond prices. The fact is that it will not require much further increase in business activity and credit demand to tax the available supply of savings and bank credit. This is true even though the flow of funds into the major savings institutions—mutual savings banks, private pension funds, life insurance companies and savings and loan associations—rose to a record $16½ billion in 1958. *For one thing, the record saving in 1958 reflected consumer caution in a recession year; 1959 is not likely to produce so large a savings flow.* For another, almost two thirds of these funds go into mortgages and are not available for investment in bonds. Moreover, the total supply of mortgages is likely to be even greater in 1959 than the approximately $14 billion created in 1958, and the demands for money from corporations and states and municipalities are not likely to be substantially lower.

The commercial banks will have to make up the difference between total demand for funds and the supply of savings. *It is not sufficiently appreciated that the banks are now in a tighter position than they have been at this stage of recovery in more than a generation.* For example, the New York banks now show a loan to deposit ratio—a banker's measure of how "loaned up" he is—of 58%, only 8% below the 66% peak touched in September 1957. At the comparable stage of recovery from the 1954 recession, the New York banks' loan to deposit ratio was 46%.

The significance of loan/deposit ratios to bond prices lies in the fact that U. S. commercial banks hold no less than $58 billion of the Federal Government's debt, and when they are tight for funds they sell Treasury securities, depressing prices and raising yields. Over the 40 years since 1919, yields on



Ratio of Loans To Deposits at All U. S. Commercial Banks and Yields on Long Term Government Bonds

long-term Government bonds have shown a remarkably consistent tendency to move up and down with the loan/deposit ratios of all commercial banks. The chart above shows the relationship since 1950.

The loan deposit ratio is now already above the 46.8% level shown on the chart for June 1958. The rising drift reflects a strong increase in real estate mortgage loans, a renewed up-trend in consumer loans, and a tendency for deposit growth to be held back by a restrictive Federal Reserve credit policy. The loan/deposit ratio projected on the chart for 1959 assumes deposits about unchanged from recent levels a continuation of the increases in real estate and consumer loans, and a seasonal decline in business loans during the first half of 1959.

When business loans turn up—under the influence of inventory accumulation and capital investment needs—loan/deposit ratios will push still higher. At that point average yields on long-term Government bonds could push beyond the $3\frac{7}{8}$ to 4% range indicated on the chart as probable for mid-1959.

The Budget and Treasury Financing

Treasury needs for funds are also likely to be a force for higher interest rates and lower bond prices in 1959. This may seem strange in view of the President's forecast that the federal budget, $12 billion in the red in fiscal '59, will be balanced in fiscal '60. One explanation is that the President's plan to cut about $3 billion from the current $80 billion federal spending level is likely to meet opposition in Congress which wants to increase spending. Furthermore, *the Administration is counting heavily on a business boom to produce a $9 billion increase in the Federal revenues. This is more than was generated by the 1955 housing and automobile boom.*

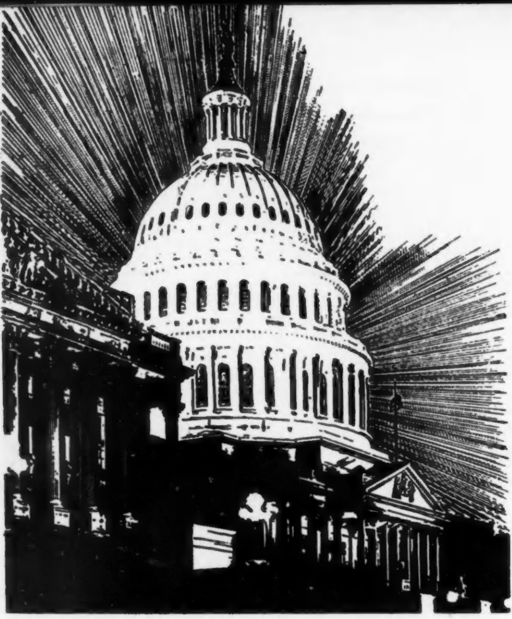
In any case, even if the Administration's hopes are realized, the Treasury will still have to finance a budget deficit of some $5 billion in calendar 1959. This is because a good part of the revenue counted on to balance the fiscal '60 budget will not come in until March and June 1960. In addition the Treasury will need another $2 billion or so to pay off Savings bond redemptions in excess of new sales. And apart from new money borrowing the Treasury will have no less than $48.6 billion of marketable securities (excluding weekly bill issues) to refinance in the course of the year.

Thus, the Treasury will be in the market constantly in 1959. With business improving and the banks rather tight for money, its task will not be easy. The problem is increased by the extent to which the Treasury has been exploiting the corporate demand for short-term obligations in the past few months. The bulk of the $12.3 billion Treasury securities sold for cash since last July have been taken by corporations. With profits still on the rise, there may be some limited further elasticity in this market, *but the danger is that we will hit the end of the string suddenly, perhaps in March or April when tax payments and inventory building will reduce the appetite of corporations for bills.*

New Treasury Long-Term Offering

All these problems the Treasury will have to deal with in the background of a public debt which has been allowed to get far too short for comfort. At the end of December about $125 billion of the interest-bearing Federal debt (including Savings bonds) was due or redeemable within 1959. No less than $185 billion, or four fifths of the total was due within five years.

It is no wonder that the *(Please turn to page 446)*



Inside Washington

By "VERITAS"

SUPERMARKETS in the food trades will receive the attention of Congress in a Senate Committee inquiry which will be instituted in an effort to learn what has happened to distribution since the owner-operated corner grocery gave way to the big outlets which serve as the core of shopping centers. This is not another "chain store investigation" such as those of two decades ago when organized retailers sought to tax the interstate competition down to a competitive level. The new inquiry will not concern itself with taxes; it will look into practices of wholesalers, manufacturers, distributors and brokers which are suspect of price-fixing vices.

WASHINGTON SEES:

The most mischievous strike of recent weeks involved workers in one of the country's highest paid industries—newspapers. The New York City newspaper strike closed nine of the country's major daily publications for almost three weeks and dented the December incomes of 10,000 servient business units. It idled 17,000 persons, 90 per cent of whom were not consulted and had expressed no grievance; it ran up losses of more than $50 million to the papers and to those who seek patronage through ads. The strikers lost an estimated average of $350 apiece; then they settled for almost the identical contract they had rejected when they called the strike.

No person involved in production of a newspaper took part in the strike vote, and only about 750 of the 4500-member deliverers union attended the balloting session. There is something wrong in a Federally-supervised system of contract which makes it possible for one of the parties, in this instance a union, to inflict multi-million dollar damage and citywide inconvenience and go free of suits requiring the offender to pay civil damages. That is particularly indefensible when unions not party to a contract won't cross picket lines, their solemn pacts notwithstanding. Isn't it time for Congress to invoke principles of equity, stop acts of this type, which hurt the innocent, injure the economy.

SOVIET RUSSIA is about to send to this country copies of its first statistical summary, a book which the Embassy says will be somewhat similar to the Statistical Abstract of the United States. In content, that is; the sources probably will not stand as close examination. The book will be interesting as a reflection of Russian claims. Typical passage: "The 1958 industrial output of the USSR will be 36 times that of 1913, the USSR now producing as much in seven days as was produced in the country during all of 1917. During the first 40 years of the Soviet Union's existence the annual rate of increase of industrial output was 10.1 per cent, compared to 3.2 in the USA, 1.9 in Great Britain, and 3.2 in France."

CONGRESS may square its obligation to organized labor by increasing the minimum wage from $1 to $1.25 an hour. The Administration favors adding about 2.5 million jobs to the payrolls covered by the Fair Labor Standards Act; labor wants about 10 million brought in. Whichever prevails, the inclusions will embrace many who already are paid more than the minimum in industries or other work not now covered. For example a $50-a-week retail clerk working 40 hours a week, gains nothing. But "millions more under Federally-guaranteed wages" sounds big in headquarters reports.

LABOR DEPARTMENT data on wage scale changes in business and industry will give more attention than they have in the past to "fringe benefits." These are appearing with increasing regularity in collective bargaining deals but seldom are translated into per-hour concessions. BLS Commissioner Ewan Clague thinks they should and he wants the go-ahead from Secretary Mitchell to appraise the items as they should be rated. The items he would place price tags on include holiday pay, vacation pay, sick leave, pensions, health and welfare programs, among many others.

As We Go To Press

►Aware that the new session of Congress will re-examine the whole subject of war veteran pensions, national organizations of former servicemen are readying a counter-attack against economy moves. In an earlier and less warlike world, Washington found it possible to make monthly payments based only upon time spent in uniform, disability, and age. The pension system as an organized Federal benefit at first embraced the relative handful of Civil War and Spanish-American War vets. The controlling principle was carried into the years immediately following end of World War 1. But in 1933, The Economy Act which reduced Federal payrolls and effected other savings, also brought a new look to the pension rolls. Eligibility depended largely on employment and income limitations after that law was passed.

►Federal and State bonuses, veterans preference laws for national and state employment, inexpensive insurance, and the GI Bill of Rights were intended to make such monetary reimbursement, and compensation, as it was possible to make to defenders of the country. Some of these were expected to be one-shot remedies for "the veteran problem." But the pendulum has been swinging back to the methods used before World War 1: medical care and hospitalization for veterans and their families and benefits (pensions) have been getting farther away from the prime purpose of taking care of war-connected physical and economic weaknesses. A comprehensive bill being drafted by Rep. Olin Teague of Texas, will launch a re-cast of the pension program early in the current session.

►Veterans plan to ask for a separate and more liberal scale of compensation for World War 1 veterans who can qualify on the basis of old age and need. This would have no relationship to service connected basis. The annual petition for an across-the-board pension increase already has been filed with the committees in charge. Also wanted is erasure of the requirement that those who served in World War 2 or in the Korean conflict show service-connection to qualify for Federal monthly checks and hospitalization. The interest of veterans in obtaining new or increased payments is two fold: Present benefit, and pensions carrying on to widows and other dependents.

►Congressman Teague has had the multi-billion dollar veteran aid program under his microscope during the recess period. The House Veterans Committee which he heads reports discovery of thousands of veterans receiving nonservice-connected pensions, who have good incomes or substantial holdings of securities or cash. Teague points to the files to show that there also are many who are trying to live on government grants generally ranging between $70 and $80 a month. This material will be used in an effort to strike the balance which Congress intended but which has been thrown off by multiplicitous amendments to basic pension act and interpretations which have reached both extremes. The prime purpose is to give the needy vets a better break and save Treasury money in the process.

►There is scant likelihood that Congress this year will enact a national right-to-work law. There will be attempts in that direction but they will seek political profit rather than legislation: democrats are going to try to put republicans on the spot, having in mind what happened to many prominent GOP candidates in November when their election campaigns became entangled in "right" issues. Knowland and Bricker, for example. The simple fact of political existence is this: Only 18 states have right-to-work laws today. In the other 31 states, the issues have been raised and defeated, or there hasn't been enough backing to force a test. Senators and Representatives must reflect the wishes of their states when the concept of a federal rights law comes up for examination. Little more than one-third of the membership will feel mandated to vote for the open shop. An extremely delicate issue could be con-

veniently sidestepped.

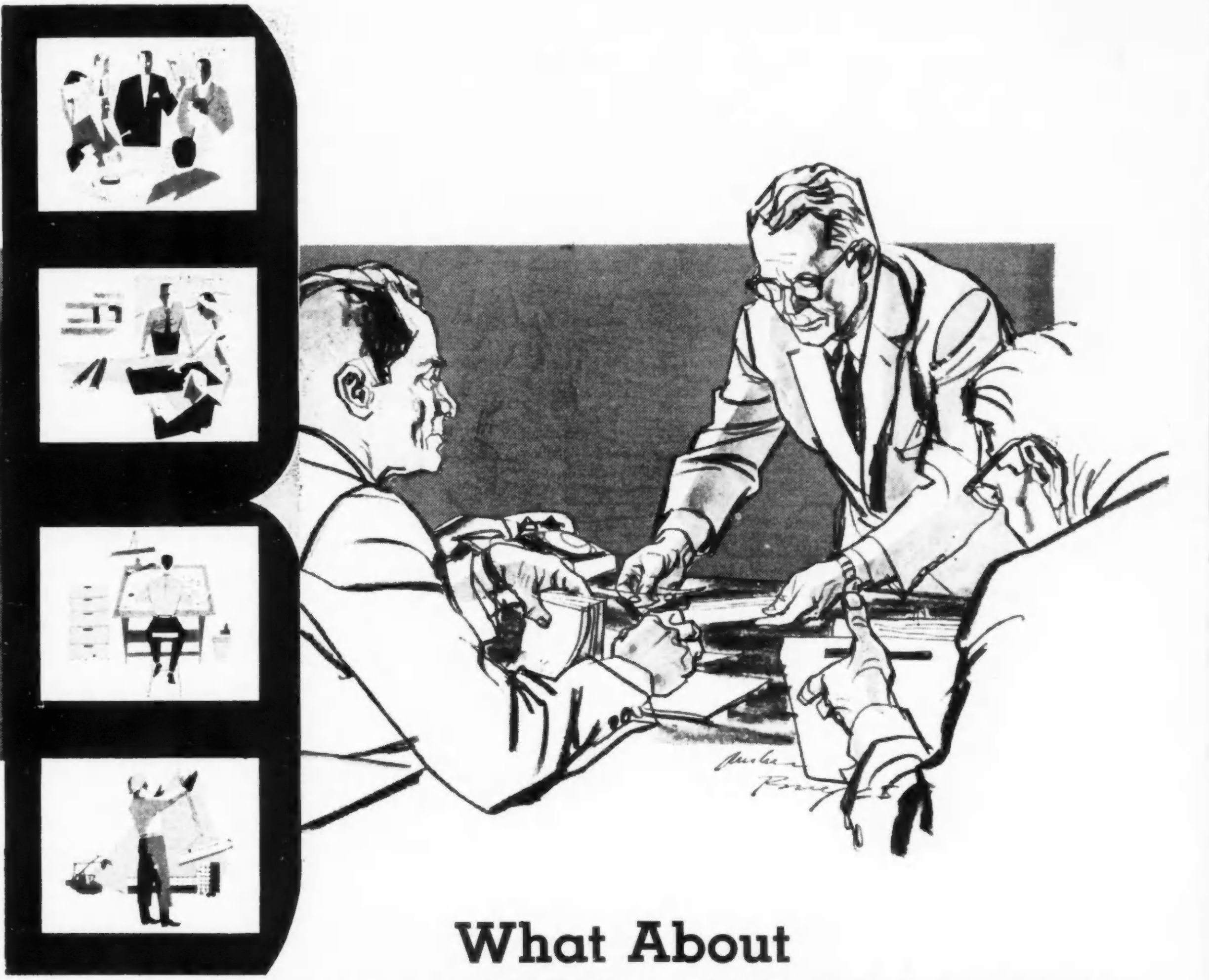
►One of the most far-reaching decisions of the Atomic Energy Commission in the forward march of A-Energy development and use had nothing to do with scientific matter. AEC has made operation of a fast breeder reactor in the vicinity of Detroit, Mich., dependent upon proof that it will not endanger the health and public safety of persons living in the locality. The Commission has issued a license for construction to Power Reaction Development Company. Based upon a flood of worried complaints, a series of hearings was conducted. As a result, PRDC will be required to submit reports each three months on safety aspects of the project as planned. The permit will not be finalized unless AEC is convinced the hazards apprehended by the residents have been guarded against.

►The Government is anxious that the program go forward without delay. On the record it has found, as uncontrovertible fact, that there is no inherent hazard or danger to the health and safety of the public in the construction or operation of fast breeder reactors. That puts it up to PRDC to conform, not to seek out new safety standards for operation of its reactor, which AEC holds ideally suited for civilian development if translated from the drawing board into the performing mechanism. A major advantage lies in the fact that it would increase many times over, the available reserves of nuclear fuel by conservation methods. What effect this development (bringing reactors close to populous centers) will have on the future of hydro-electric and steam power generation can only be speculative. It could have a major impact.

►Southerners will have their hands on the legislative throttle at the committee level in almost every major operation of the new Congress. The chairmanships are a virtual monopoly of Senators and Representatives from below the Mason-Dixon Line. A Chairman has only one vote, but his authority is almost absolute on the scheduling of bills for hearing, assignment of personnel to conduct subcommittee sessions (the point of first public hearing in most situations), on the preparation and forwarding reports to the floor. The delaying tactics he can invoke can be fatal to the progress or ultimate action on any legislation. That has happened in every session of Congress.

►Handling tax matters, including tax revision, will be two southerners—Senator Byrd of Virginia, and Rep. Mills of Arkansas. The same lineup is found on labor committees: Senator Hill of Alabama, and Rep. Barden of North Carolina. The appropriations bills must pass through committees headed by Senator Hayden of Arkansas, and Rep. Cannon of Missouri. Agriculture will look to Senator Ellender of Louisiana, and Rep. Cooley of North Carolina, the agriculture committee chairmen. The most important committee of the house, from the standpoint of legislative flow, is headed by Rep. Howard Smith of Virginia, who has not hesitated to kill bills by refusing to call them up for hearing. Banking and currency bills will go to two southerners, Senator Fulbright of Arkansas, and Rep. Spence of Kentucky. Senator Eastland of Mississippi, is chairman of the Senate judiciary committee. Senators Russell and Rep. Vinson of Georgia, head military affairs.

►Those named, of course, are all democrats. The chairmanships which northern democrats will hold include foreign relations, with Senator Green of Rhode Island, and Rep. Morgan of Pennsylvania, the incumbents. Since the major foreign policy decisions rest with the President and the State Department, these cannot be regarded sensitive spots. Unless, that is, a true bi-partisan foreign approach is worked out, such as long been promised but not yet fulfilled. Rep. Emanuel Celler of New York City, is house chairman of the judiciary committee. Celler is as vigorous a crusader for civil rights as his opposite number, Senator Eastland is an exponent of preserving the status quo. In past years each has cancelled out the legislative efforts of the other in this field of opportunity. A repeat performance can be expected in the new session. The presiding officer of the House is Speaker Sam Rayburn, a Texas democrat, and a powerful influence on legislative movement. Vice President Richard M. Nixon presides over the Senate but he may be compared to a general without an army. The overwhelming democratic strength in the Senate has reduced the Vice Presidency, by sheer force of numebrs, to the status it held by custom in the earlier days of the Nation.



What About FAMILY OWNED CORPORATIONS THAT HAVE "GONE PUBLIC"

By ROBERT SHAW

THERE is nothing mysterious or even novel in the phenomenon of closely held companies "going public" by offering their stock for widespread subscription; the process is a natural phase in corporate growth. For various reasons, however, this once simple procedure has become more deliberate and formalized in recent years.

At an earlier period in our financial history the transition of growing corporations from tightly controlled family businesses into enterprises of broadly dispersed ownership proceeded by imperceptible stages. Most new businesses (the infant railroads were a partial exception) were financed primarily by the personal associates of the initial promotor, establishing control in the hands of a small group personally acquainted and usually living in a single community. Even stock certificates were unknown at first; the shareholders possessed no tangible documents to evidence their ownership, and records of ownership were kept, or transfers made, only upon the books of the company.

But, by the process of inheritance and the division of estates, as well as the occasional necessity of inviting outsiders to contribute additional capital, the original large holdings were gradually fragmentized, at the same time being distributed more widely among the general investing public. The inevitable result has been that the du Ponts have become minority holders in the enterprise founded by their illustrious ancestor, New York Central has ceased to be a "Vanderbilt road," and even the mighty Ford empire has finally admitted the public to financial participation. In the present article we are interested in the investment aspects of this development, but its impact upon the general economic history of our country has also been tremendous.

Diversification

The same process of the gradual break-up and

distribution of controlling blocks of stock in closely held corporations continues, of course, to go on today. (In rare instances it is resisted by provisions that heirs may sell stock only to officers or other members of the founding families.) But in many cases, owing to changed conditions, this gradual method of distribution has proved unsatisfactory, and it has been succeeded by the carefully planned sale of large blocks of stock as a single operation — the increasingly familiar "secondaries."

Before looking at some of the recent important secondary distributions, let us examine briefly the motives for such operations. First of all, it should be emphasized that secondary sales are carried out only for the account of individuals, and do not bring new money to, nor directly affect the companies whose stock is being sold. Not infrequently, to be sure, secondary offerings are linked with offerings of new stock by the corporation; this collaboration enables the corporation and the selling stockholders to benefit mutually from their common marketing efforts. But, as is always emphasized in the prospectus, the true secondary is conducted only on behalf of certain "selling stockholders," with the company receiving no part of such proceeds. The selling stockholders will often, but not invariably, be such insiders as officers or relatives of the founders.

Probably the most fundamental reason for instituting a secondary distribution is simply that familiar watchword of all investment: diversification.

The founder of a business, who has often put a life-time of devotion, as well as all his liquid assets, into it, may be not only emotionally attached to the enterprise he has nurtured from its infancy, but may also have more confidence in his own management than in that of other corporations in which he could participate only as an outside stockholder. Nevertheless, as a realist he will usually recognize the arguments in favor of diversification. If he does not think they apply to himself he may still see them as binding upon his wife and children, when they become his widow and heirs. If large family holdings have already passed through several generations, the emotional attachment to them is usually weakened, and diversification seems correspondingly more important to the modern descendents.

Estate Tax

Another motive for unloading insider stock may be to protect the corporation from dissolution and, curiously enough, to assure the continuance of control by the family of the founder. In such cases the selling stockholder(s) may have no desire to diversify, but is forced into a secondary simply by his contemplation of today's onerous estate tax. This levy, which reaches a maximum requisition of 77% upon a net estate of $10,000,000 by the federal government alone becomes due within fifteen months of death. If, as is frequently the case, the principal of a closely held corporation has substantially all of his assets invested in that enterprise, sudden liquidation to meet this nearly confiscatory tax could mean the dissipation of family control, possibly even the ruin of the business. But by planning an orderly secondary distribution, taking leisurely advantage of favorable market conditions, a company founder can avoid any semblance of a "fire sale," and by promoting widespread distribution increase the liklihood that his remaining large minority interest will still carry effective control of the business.

Improving Marketability

Still another reason for a secondary distribution is to improve the marketability of closely held stock. This, of course, looks toward some future occasion, when marketability may become more desirable. One such occasion would be the establishment of the fair price of a large block of closely held stock for estate purposes. In the absence of an established market and frequent quotes for any stock, the tax collector will look for other indications of fair value, such as net assets per share or earning power. Such methods of appraisal are highly subjective, and not only create the possibility of serious injustice to the estate, but at the least invite expensive litigation. It may also be desirable to establish some trading position in the stock to facilitate other, future sales, either by the insiders or in behalf of the company itself. Even if no need for inviting outside participation is anticipated, it is usually good insurance to introduce the stock to the investment fraternity.

To be sure, the reasons above only explain why it becomes necessary for insiders, even if reluctantly, to offer large blocks of their stock to the general investing public. But why should this be done by "secondaries," i.e., by concentrated selling campaigns conducted by underwriting syndicates? Couldn't the selling stockholders accomplish the same objective by doling their stock out through the over-the-counter market, thus avoiding the considerable expense and trouble of registering the offering, preparing prospectuses. and frequently obtaining listing. The answer to this question is simple. No. Both common sense and experience have shown that the major objectives of the selling stockholders, viz. the best price possible and widespread distribution, are more likely to be obtained through the apparatus provided by an underwriting syndicate. Any large volume of sales over-the-counter would tend to depress the price of the stock, whereas the elaborate organization of modern underwriters can reach sufficient interested buyers to equate demand with supply. In any case, the underwriting process has the strong merit for the selling stockholders, who are assured a fixed price for their shares, of shifting the risks of the operation to the underwriting group. In turn, the commission taken by the underwriter (always precisely specified in the prospectus) is in part a simple payment for his labor but also a reward for accepting these risks.

Listing Advantages

In many cases a well conducted secondary may by itself sufficiently accomplish the objectives of the selling stockholders. But one further step — listing upon a major exchange — frequently accompanies the secondary. Listing may be compared with a comingout party for a debutante eager to make her mark upon Society — certainly desirable, if not essential, in both instances. It is possible, of course, to cite the example of some unlisted stocks that are widely distributed and readily marketable, but these are certainly exceptions. Many institutions and individuals arbitrarily restrict their investments to

Recent Secondary Distribution of Stock Held In Closely Held Companies

	Year Business Was Founded	1st 9 Months Net Sales 1957 —(millions)—	1958	Earnings Per Share 1957	1958	Date of Listing	Under-writers Offering Price	% Retained by Family and others†	Price Range 1957-1958	1958 Div. *	Recent Price	Div. Yield
Campbell Soup Co.	1869	$ 440.8[1]	$ 501.3[2]	$2.80[1]	$2.95[2]	12/13/54	$39.25	81%	50¾-28½	$1.60	49	3.2%
Champion Spark Plug Co.	1910	NA	NA	NA	1.89	11/12/58	28.50	76	39¼-28½	1.35	36	3.7
Chock Full O'Nuts Corp.	1922	6.4[3]	7.0[3]	.40[3]	.47[3]	[8]	15.00	50	24 -15	.25	23	1.1
Desilu Productions Inc.	1950	5.9[10]	8.2[11]	[12].16[10]	[12].22[11]	9	10.00	[18]	14¼-12½	[17]	14	—
Ford Motor	1903	4,419.2	2,682.9	4.22	d.30	3/ 7/56	64.50	40	59⅝-35⅞	1.60	53	3.0
Great Atlantic & Pacific Tea	1859	NA	2,486.9[13]	NA	NA	12/15/58	48.20	81	59 -15	.80[15]	52	1.5
Korvette (E. J.), Inc.††	1949	71.0[6]	105.7[6]	1.02[6]	.68[6]	2/18/57	10	15	21¼- 9	—	15	—
Lykes Bros. Steamship Co.	1925	67.4	53.7	2.60	2.93	6/ 5/58	22.50	67	24⅛-19½	1.00	22	4.5
Reichhold Chemicals††	1927	50.2	54.4	2.15	1.71	6/ 9/58	25.50	58	59⅜-20½	1.00[4]	56	2.7
Thiokol Chemical Corp.	1928	39.0	54.6	1.09	1.38	12/10/58	53.75	20	102 -20⅛	[5]	96	—
Upjohn Co.	1886	128.0[7]	109.4	1.23[7]	1.20	1/ 5/59	45.00	59	46½-48[16]	.64	48	1.3
Walt Disney Productions	1938	35.7[14]	15.5[14]	2.44[14]	2.51[14]	11/12/57	21.75	75	43⅞-13	.40[4]	43	.9

*—Based on latest dividend rate.
†—% Retained by family, management and associates.
d—Deficit.
(NA)—Not available.
††—These offerings were primary distributions, not secondaries.

1—52 weeks ended 7/28/57.
2—53 weeks ended 8/3/58.
3—Quarter ended Oct. 31.
4—Plus stoc.
5—Paid 5% in stock.
6—Years ending Sept. 28.
7—Year ended Dec. 31, 1957.
8—Co. plans to apply for listing.
9—To apply for listing on Amer. S. E., 3 mos. after offering.

10—24 weeks ended Oct. 12.
11—24 weeks ended Oct. 18.
12—On common shares.
13—26 weeks ended August 23, 1958.
14—Year ended 9/27
15—Approx. rate on new stock adjusted.
16—Listed on N. Y. S. E. 1/5/48.
17—Directors, intend to pay initial quar. div. of $0.15 on com. only, in April, 1959.
18—9% of common and 100% of the class "B" common, held by directors and officers.

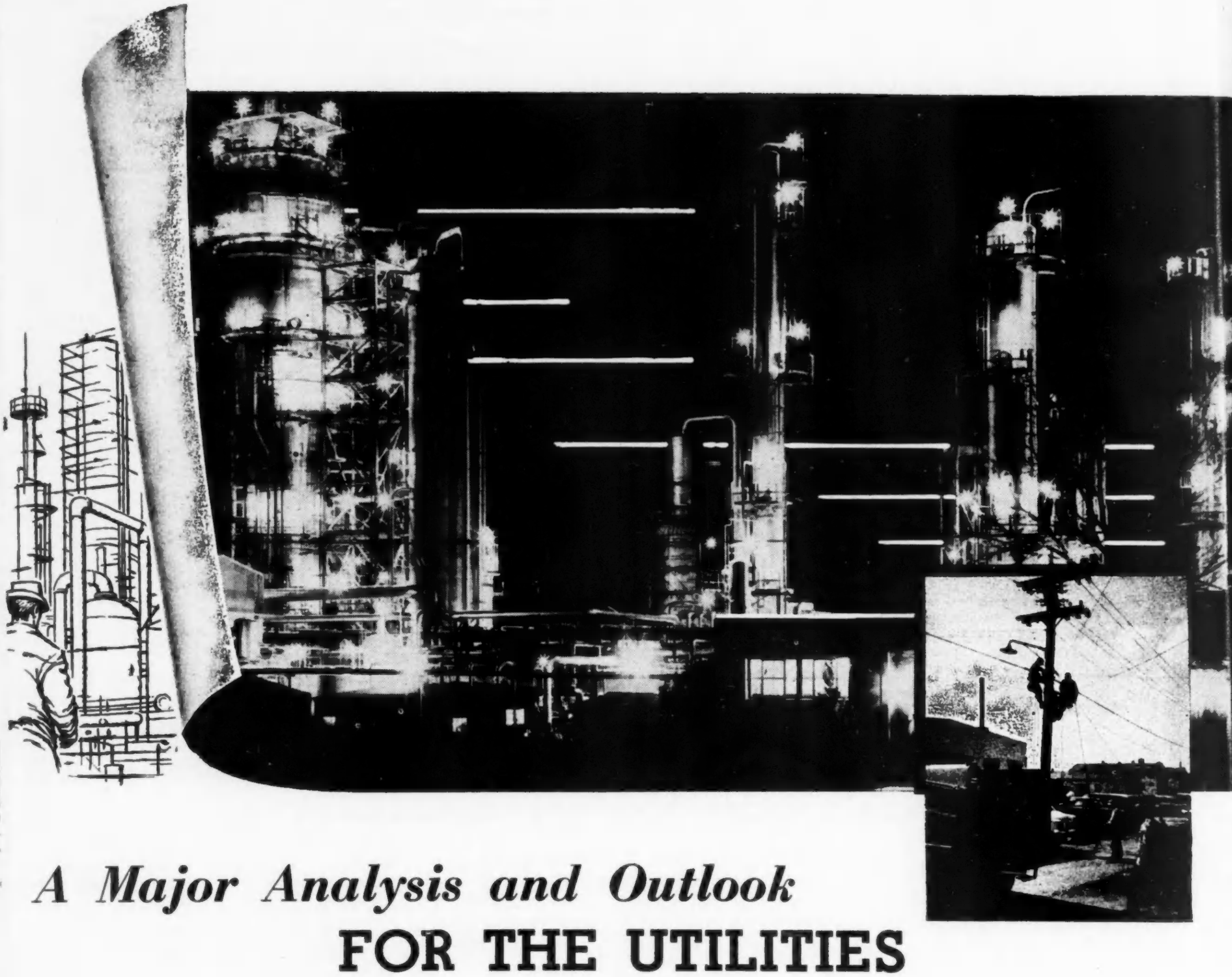
listed issues. This means that listing is an imperative if it is desired to capture the widest possible public interest in a previously closely held stock. Many companies may, to be sure, still be too small to qualify for listing at the time of their first secondary, but listing is the logical conclusion in the process of "going public."

Public Ownership

"Going public" by means of a secondary distribution is thus really a normal stage in the life of modern corporations, occuring somewhere between infancy and maturity. At least, this is generally true at present, and is likely to be even more nearly invariable in the future, in an era when high income taxes inhibit the growth of businesses solely from retained earnings. In the past, however, it has occasionally been possible to build up large industrial empires at the same time keeping them closely controlled by heirs of the founders. A few such monolithic enterprises have survived even into the present, and others, for some of the reasons outlined above, have only recently opened their stock registration books — and many of their corporate secrets — to the general public.

Outstanding among these tardy debutantes has been the **Ford Motor Co.,** 10,000,000 of whose shares were offered by the Ford Foundation, at 64½, in January 1956. This large distribution will serve to illustrate a legal requirement of such public offerings. Under SEC rules all solicitation must be accompanied or preceded by a copy of the prospectus, containing the relevant facts about the company. The Ford offering, probably the best known secondary in financial history, naturally aroused widespread interest even among persons normally indifferent to stocks. Only recently, in fact, SEC Chairman Gadsby criticized the Ford underwriters for whipping up public interest "to the point where the issue was to all intents and purposes completely sold long before any registration statement was filed." Undoubtedly, a great deal of ballyhoo accompanied the Ford offering, but most of this originated from outsiders, while Henry Ford II himself issued a cautionary statement to the public reminding them that no fixed level of earnings could be assured. It seems unlikely that any underwriting firms acted improperly in this offering, and Gadsby later made a partial apology. Ford was, of course, adversely affected by the sharp dip in automobile sales following the 1955 peak, and the stock soon declined to a considerable discount below the offering price. While the demand at the time of the offering was so heavy that the stock had to be strictly rationed by brokers to their customers, the number of holders has subsequently declined steadily, as smaller lots have apparently been consolidated into larger ones.

Campbell Soup has also finally lifted the lid, to give the public at least a glimpse into the inside of its stewpot. Originally founded back in 1869, this business was solely owned by its late president, Dr. John Dorrance, or his estate, from 1915 to 1954, when a mere 13% of its *(Please turn to page 436)*



A Major Analysis and Outlook
FOR THE UTILITIES

By OWEN ELY

ELECTRIC utilities made a continued good earning showing in 1958, with only a few companies such as Detroit Edison, Minnesota Power, and Columbus & Southern Ohio Electric showing any substantial reduction in share earnings as a result of the industrial recession. Detroit Edison felt the full brunt of the sharp decline in automobile operations, with resulting heavy local unemployment, and share earnings for the nine months ended September 30 were down about 14%. Consumers Power, which also has a substantial automotive load, got off more lightly with a 4% dip in share earnings. Minnesota Power & Light, which serves the iron ore region and has a substantial proportion of industrial power, suffered an even sharper decline in net income—$2.22 for the 12 months ended November vs. $2.59—but is probably over the worst now. Columbus & Southern Ohio Electric's share earnings for the 12 months ended November 30 were down some 23%, due largely to industrial conditions.

However, these companies were exceptions, and a recent tabulation of latest 12 months' interim reports for all electric utilities showed an average increase in share earnings of 4% over the previous period, as contrasted with an average 7% rate of gain in earlier years. The rapid growth utilities continued to make an outstanding showing, led by Florida Power Corp. with an increase of 31% in share earnings in the 12 months ended September 30.

Consolidated figures for all private electric utilities are published monthly by the Federal Power Commission, the latest report being for the 12 months ended September 30 and for the month of September. For the month of September there was a gain in net income of 10.5% and for the 12 months' period 6.9%. For the one month period the number of customers showed the usual 2% gain over last year, while increased residential use of electricity more than offset the poor industrial showing, resulting in an increase in total sales of 5.1%. Rate increases boosted the increase in revenues to 6.4%. On the expense side the utilities, enjoying a good hydro year, were able to cut fuel expenses 1.9%—a most important item. While interest on long-term debt increased 15% there was a substantial offset due to the interest credit on construction, so that the increase in total income deductions

was only 5.8%. In the report for the twelve months' period depression effects were more in evidence—sales were up only 1.5%, and revenues 4.7%. Utility operating income gained 7.1%; interest charges were 17.9% higher and total fixed charges up 8.6%, so that net income gained only 6.9%.

Importance of Weather Factor

Weather is an increasingly important factor for electric as well as gas utilities, and while it is difficult to generalize, the overall 1958 results were probably on the favorable side. The cold spring greatly favored the Florida utilities, with thousands of customers using heat pumps, resistance heaters and radiant panels to heat houses not designed for winter weather. On the other hand the very heavy rainfall in Texas, while it greatly improved farm conditions after a long drought, reduced the irrigation pumping load. Good rainfall and plentiful hydro supplies prevailed in much of the country. On the other hand the summer was generally cool and the air conditioning load was less than might have been expected.

Latest weekly reports on electric output have been quite favorable, with recent cold weather again affording a stimulus. Output in the week ended December 20 was 13.5 billion kwh, up 9% from the same period of 1957 and a new record high. All areas reported gains, New England making the best showing with an increase of 11.4% over last year.

Facts Back of the Advance

Despite the fact that 'inflation" is said to be a major factor in the advance in the stock market, and that utilities suffer rather than benefit from it, the electric utility group has followed the upward surge of industrials. Electric utilities recently were selling about 28% higher than a year ago. Major interest has been in the growth issues, but the sharp advances in that group has carried many secondary stocks along with it.

The utility companies have maintained their regular routine—reducing the average rate for residential electricity (due to "promotional" rate schedules) month after month and year after year, while rates for commercial and industrial use have been increased moderately. Facing high money rates and increased costs of financing construction the utilities have been reasonably successful in obtaining rate increases (see article in Magazine of Wall Street for Nov. 22).

Dividend increases and stock splits for electric utility stocks continued in 1958, though at a somewhat slower rate than in the previous year. Yields on growth stocks have dropped to around 2-3% while the average yield on better-known issues is now slightly under 4% and the yield on all electric utilities averages about 4.2%. Price-earnings ratios for the most rapid growth utilities now average about 25 times, and for other growth issues range between 19-22, with the average for all electric utilities around 17½. The discerning investor can, however, still obtain some good yields—as high as 5½%, for example, on several New England issues; while price-earnings ratios as low as 14 times still prevail for a few companies such as **Kansas Power & Light, California Pacific Utilities, Iowa Southern, Michigan G. & E.** and **New England Gas & Electric.**

Commonwealth Edison recently announced a new dividend policy of paying out nearly all its share earnings. The $2 cash dividend rate will remain stable while a stock dividend (2% for 1958, and probably more in 1959) will be paid each year-end representing (in easily-cashable market value) the balance of earnings in excess of $2. A few other companies such as **Missouri Public Service, Citizens Utilities,** and **Michigan G. & E.** use regular stock dividends, but the policy of nearly 100% payout has not been adopted by any other electric utility company, though **Boston Edison** and some other New England companies are noted for relatively high payouts.

Price Factor of Institutional Buying

Doubtless an important factor in the strength of utility stocks has been the institutional interest in growth stocks of all kinds. Up to about a year ago the 10 or 15 electric utility stocks composing the group of "growth utilities" had been selling at about 16-20 times earnings compared with 12-14 for non-growth stocks. But with the continued rapid increase in earnings for most of these companies—especially the Florida group—regardless of the recession, price earnings multiples of the leaders lengthened to 22-25.

Are these high multiples warranted? A growth stock like **Florida Power & Light** yields only 1.8% but the holder can disregard this if he is reasonably sure that share earnings, dividends and price will continue in an upward trend. Moreover, many industrial growth stocks like IBM—together with many hitherto obscure electronic and missile stocks—are now selling at 30-50 times earnings. As with utility stocks, the demonstrated and/or anticipated rate of growth governs the price-earnings ratio. Considering the greater hazards of many industrial growth stocks (loss of Government contracts, unforessen competition, obsolescence, bad management, inadequate finance, etc.) present multiples of growth utilities seem reasonable enough compared with some of the fancy multiples for industrials. However it is dangerous to "put all the eggs in one basket" even in connection with utility stocks—it is much better to reduce the risks of regulation, politics and weather by diversifying as much as possible. In this way the risk will be largely confined to the market factor itself—the general popularity of utility stocks, and the vulnerability of the bull market as a whole.

Utility Accounting

There is another factor which the institutional type investor can make allowance for but which the small investor is not always qualified or able to appraise—the effects of different accounting policies. It is generally true that utility accounting is closely regulated and on the whole is more conservative than in the 1920s; nevertheless, within this frame-work there are bookkeeping factors which may make the share earnings of one company not closely comparable with those of another. The two most important items are (1) the credit to fixed charges representing "interest on construction"; and (2) "deferred taxes" representing actual tax savings which the utility may "normalize" or offset, so that they are excluded from its earnings.

Interest Charges

Nearly all utilities use the interest credit on construction, which means that the utility adds to its earnings an arbitrary amount representing what it thinks it might *earn on newly constructed property (mainly generating plants) not yet placed in operation. Usually the company assumes that it will earn 5% or 6% on the new property, and since 1958 was a heavy construction year the interest credit for all electric utilities substantially exceeded that of the previous year, partially accounting for the good showing of net income in 1958.*

Of course for most companies the item may not be of great importance but for others it may be a substantial part of earnings. Thus Washington Water Power and Idaho Power are building large hydro developments. In the 12 months ended November 30, Washington Water Power reported a credit for interest to construction of $2,957,000, equivalent to nearly half of the earnings shown for the common stock. Idaho Power made a similar showing with an interest credit of $3,429,000 in the 12 months ended September 30—equal to about $1.22 out of the $2.60 share earnings reported. Utility analysts are apt to distrust the interest credit because they fear a possible "gap" or decline in earnings after the new plant or unit is installed, before it will be able to earn 6%.

Depreciation

Regarding tax savings from accelerated depreciation, about twenty electric utilities now take the full benefit of these savings in reporting their earnings (partly because state commissions favor this method) while several times that number "normalize or offset the savings, and some others do not use the method at all. It seems possible that Congress may do away with this privilege of using fast depreciation in reporting earnings for income taxes, but in the meantime it is important to know to which group a utility belongs. "Flow through" may easily raise a utility's share earnings by as much as 10%.

Regulatory Climate

What are the long-term prospects for the industry? As in the past, much will depend on the energy and initiative of engineers and managements in devising more economical generating facilities, new methods of distribution, etc.; the continued growth of population and formation of new families, and the rate of residential "housing starts"; the sales of improved household appliances, etc. In addition to these "opportunity" factors, there are the "required" factors of sound management, good financing methods, and favorable regulatory atmosphere, so that the benefits of growth and of new economies can be conserved, at least in part, for stockholders. The most important, of course, is the regulatory climate which in turn depends so largely on local and national politics.

A good case in point is California. Utilities in that state are not ranked along with Florida and Texas utilities as "growth stocks" because regulation has been erratic and frequently adverse. Over the past two or three years the situation had improved somewhat; while fuel costs skyrocketed and the utilities were unable to adjust rates automatically for changing fuel cost (as they could in Florida), the commission recognized the pressure on earnings and granted a number of rate increases. Now, however, "politics" has again entered the picture. Governor-Elect "Pat" Brown has made several statements to the effect that he was against several recent rate increases, and feels that the tax savings resulting from accelerated depreciation should be passed on to the consumer in the form of lower rates. If (as sometimes happens) the utility would prefer not to use accelerated depreciation in its tax return he would like to force them to use it—though thus for the courts have not ruled that this can be done. The California Public Utility Commission, while it may not reverse its position sharply, will presumably feel the "change of atmosphere" especially as new appointees gradually replace present commissioners.

Future Growth Prospects

The long-term growth prospects for the electric utility industry seem as bright as ever. It is generally recognized, however, that the rate of expansion in the postwar period reflected not only normal growth, but overcoming of the lag of the depression-ridden 1930s, and of the wartime period when construction materials and labor were difficult to obtain. The Federal Power Commission has estimated that by 1980 (as compared with 1957) residential usage of electricity will increase 238%, farm usage about 100%, commercial 185%, industrial 187%, etc. Over the 23-year period total usage would gain 192%—which while less than the traditional "doubling each decade," is an important gain. It is believed that this estimate is on the conservative side.

According to the 24th Electric Power Survey of the Edison Electric Institute, the electric utility industry (including public power) now has total generating capability of about 146 million kw, a gain of 12% over 1957. The margin over peakload is estimated at 25% which is considered more than ample. The Institute expects the load to grow at the rate of 7.6% annually during 1957-61. The overall construction program thus far scheduled, running beyond 1962, calls for the addition of about 52 million kw. Because of the present heavy excess capacity there has been a reduction in orders for new generators (which must be placed two or three years ahead of time) but this is not considered to indicate any real slowing down in the industry's future rate of growth.

Struggle Between Public Power Interests and Private Utilities

What about competition from public power projects? This has always been a bug-a-boo for the electric utility industry, more particularly for certain areas such as TVA, the Pacific Northwest etc. The increase in the Democratic majority in Congress is supposed to mean greater danger from expansion of public power, but apparently this has not affected utility stocks marketwise as yet, to any appreciable extent. There are four ways in which the public power interests in Congress—frustrated over the loss of the Hell's Canyon issue although they won a "victory" over Dixon-Yates—may move to expand the scope of their interests: (1) They may pass a bill to let TVA finance itself (and expand accordingly), which bill was almost enacted by the last

Comparative Statistics on Important Electric Utilities

	Earnings Per Share						1958 Dividend Per Share *	Recent Price	Div. Yield	Price Earnings Ratio †	Price Range
	1954	1955	1956	1957	12 mos. to Oct. 1957	12 mos. to Oct. 1958					
American Electric Power	$1.68	$1.94	$2.03	$2.23	$1.80	$1.81	$1.62[2]	55	2.9%	30.3	55⅞-29⅞
Baltimore Gas & Electric	1.89	2.02	2.32	2.33	2.27[3]	2.30[3]	1.80	44	4.0	19.1	45 -31⅞
Central & South West Corp.	2.00	2.04	2.32	2.41	2.34[3]	2.50[3]	1.70	56	3.0	22.4	60¾-34⅝
Cincinnati Gas & Electric	1.72	1.90	1.99	2.01	1.93[3]	1.95[3]	1.50	35	4.2	17.9	35¼-28¾
Cleveland Electric Illum.	1.93	2.49	2.60	2.64	2.56[3]	2.56[3]	1.60	53	3.0	20.7	53½-30
Commonwealth Edison	2.70	2.62	2.72	2.85	2.89	3.10	2.00[2]	57	3.5	18.3	57⅛-35⅜
Consolidated Edison	2.98	3.12	3.20	3.44	(NA)	3.65	2.80	63	4.4	17.2	63 -40¼
Consumer Power Co.	3.10	3.11	3.33	3.30	3.21	3.17	2.40	54	4.4	17.0	57¾-42
Detroit Edison	2.05	2.43	2.36	2.62	2.64	2.14	2.00	42	4.7	19.6	42¼-35¼
Duquesne Light Co. **	2.26	2.34	2.44	2.53	2.69[3]	2.84[3]	2.00	48	4.1	16.8	49¾-30½
Florida Power & Light	1.75	2.05	2.59	2.98	2.97[3]	3.45[3]	1.64	89	1.8	25.8	91¼-44½
General Public Utilities	2.42	2.81	3.05	3.21	2.99[3]	3.32[3]	2.12	49	4.3	14.7	49⅞-33½
Illinois Power Co.	1.41	1.73	2.00	1.95	1.88	2.06	1.50	38	3.9	18.4	38½-25⅛
Long Island Lighting	1.21	1.34	1.51	1.44	1.43[3]	1.62[3]	1.20	30	4.0	18.5	30 -19¼
Middle South Utilities	2.13	1.93	2.18	2.41	1.71	1.86	1.80	46	3.9	24.7	48⅜-30¾
New England Electric System	1.16	1.24	1.23	1.19	.93	.99	1.00	19	5.2	19.1	20 -14
Niagara Mohawk Power	2.11	2.22	2.13	1.91	1.83	2.15	1.80	38	4.7	17.6	39 -26¼
Northern State Power	1.07	1.16	1.21	1.23	1.21[3]	1.29[3]	1.00	22	4.5	17.0	22½-13½
Ohio Edison	3.02	3.55	3.79	3.62	3.62[1]	3.59[1]	2.64	59	4.4	16.2	60½-42¾
Pacific Gas & Electric	2.88	3.32	3.37	3.41	3.32[3]	3.63[3]	2.40	62	3.8	17.0	64 -43¾
Philadelphia Electric	2.25	2.39	2.59	2.60	2.52	2.78	2.00	49	4.0	17.6	49¾-34⅝
Public Service Elec. & Gas	1.96	2.26	2.10	2.22	2.21[3]	2.23[3]	1.80	38	4.7	17.0	39 -28⅛
Southern California Edison	3.06	3.32	3.48	3.12	3.09[3]	3.51[3]	2.40	59	4.0	16.8	61¼-44⅞
Southern Company	1.29	1.35	1.54	1.65	1.61	1.79	1.20	37	3.2	20.6	37⅝-20¼
Texas Utilities	1.93	2.06	2.35	2.56	2.53	2.72	1.60	65	2.4	23.8	67 -38⅝
Union Electric Co.	1.65	1.70	1.70	1.94	1.95[3]	1.66[3]	1.52	32	4.7	19.2	32½-24⅞
Virginia Electric & Power	1.10	1.27	1.39	1.53	1.48	1.64	1.10	39	2.8	23.7	40⅞-21¼
West Penn Electric	1.88	2.06	2.15	2.19	2.17	2.25	1.50	35	4.2	15.8	35¾-23½
Wisconsin Electric Power	2.31	2.36	2.44	2.40	2.36[3]	2.07[3]	1.70	37	4.5	17.8	37¼-28½

*—Based on latest dividend rate.
†—Based on latest earnings report.
**—Two for one stock split to holders of record 1/6/59; subject to approval by stocholders 1/5/59; distribution 1/23/59.

(NA)—Not available.
1—12 mos. ended Nov. 30.
2—Plus stock.
3—12 mos. ended Sept. 30.

Congress. (2) They might pass the Neuberger bill for a Columbia River Authority, setting up a one-man agency in the Pacific Northwest which could finance itself, take over the output of Bonneville and other public dams, possibly buy or appropriate private utilities, etc. (3) In New York State where the issue over public power from Niagara had seemingly been compromised, Congress might authorize the New York State Power Authority to carry out its recent proposal for a huge atomic or steam power plant to supplement the hydro projects it is now building. (4) Congress can also move to "take over" the atomic energy field—much as hydro has been exploited in the past—although the private utilities have thus far been encouraged to undertake construction of a number of large atomic reactors.

Discussing these in the order listed, regarding TVA, the big fight between Wendell Willkie and the Authority in its early days is still remembered. It was compromised, and both the Authority and its utility neighbors have respected the "gentleman's agreement" reached at that time. However, TVA was permitted by Congress (partly due to defense needs) to build large steam plants supplementing the fully developed hydro resources. Congress thus far has kept a tight reign on TVA and expansion had to be financed out of revenues or Treasury loans. Now it is proposed that TVA be allowed to sell its own (Please turn to page 434)

1959
Investment Outlook for
BANK SHARES

By FRANK ELLIOTT
Bank Stock Specialist

THE year 1958 will probably go down in financial history as the year individual investors rediscovered bank stocks and institutional investors vigorously renewed their interest. New York bank stock prices advanced 29% in 1958 through December 23 and bank stocks outside New York City advanced 34%. The favorable market performance in 1958 when interest rates faltered and bank earnings tended to level off contrasts strongly with recurrent periods of indifferent market performance of bank stocks in past years of increasing earnings and rising interest rates. No doubt the strength in the bank stock market in 1958 in part mirrored the strength in the general securities market but more particularly it indicated wider public acceptance of bank stocks and increased realization of the strategic position the banking industry occupies in our dynamic economy. Leaving this idea for subsequent development let us quickly scan the banking picture over the last two years.

1957 Rising Interest Rates

In retrospect 1957 was a year of near perfect bank operating conditions and all-time record bank earnings. Loan demand was at times nearly insatiable and money rates reached their highest levels in more than twenty years in August 1957, with the prime loan rate going to 4½% , with U. S. Treasury 237-day interim bills marketed at an average yield of 4.173% and the Federal Reserve rediscount rate increased to 3½%. Almost at the end of the year, on November 15, 1957, the Federal Reserve Board in apparent advance of need abruptly reversed its policy by returning the rediscount rate to the 3% level which had prevailed in the first eight months

Statistical Data on Leading Bank Stocks

	Total Deposits		Loans & discounts		U.S. Gov't Secur.		Book Value	Earnings		Indicated		
	12/31	12/31	12/31	12/31	12/31	12/31	per share	Per Share*		Current	Recent	Div.
	1958	1957	1958	1957 (Millions)	1958	1957	12/31/58	1958	1957	Dividend	Bid	Yield
American Trust, San Francisco	$1,673	$1,539	$ 895	$ 8.50	$ 489	$ 402	$41.94	$3.97	$3.49	$1.60	53	3.0%
Bank of Amer., San Francisco	10,307	9,524	5,662	5,554	2,398	1,874	23.49	3.01	2.81	1.80	44	4.0
Bankers Trust, N. Y.	2,779	2,556	1,391	1,448	629	514	66.56	5.47	5.64	3.00	75	4.0
Chase Manhattan, N. Y.	7,386	6,884	3,807	3,737	1,506	1,151	48.23	4.25	4.24	2.40	58	4.1
Chemical Corn Ex., N. Y.	3,174	2,933	1,524	1,468	586	480	46.39	4.25	3.86	2.40	60	4.0
Continental Illinois, Chicago	2,555	2,394	1,066	1,164	816	714	87.00	8.36	7.52	4.00[1]	115	3.4
First National City, N. Y.	7,009	6,692	3,836	3,867	1,512	1,156	62.31[2]	5.02	5.02	3.00	75	4.0
First National of Chicago	2,706	2,614	1,488	1,512	769	533	209.57	19.42	19.11	8.00[1]	343	2.3
First Penna. Bkg., Phila.	1,070	998	509	536	207	152	40.88	(N.A.)	(N.A.)	2.20	48	4.5
Guaranty Trust, N. Y.	2,638	2,438	1,665	1,610	568	525	69.80	5.04	5.21	4.00	91	4.3
Hanover Bank, N. Y.	1,713	1.576	898	912	438	262	43.00	3.52	3.74	2.00	50	4.0
Irving Trust, N. Y.	1,775	1,578	837	806	493	345	26.88	2.64	2.78	1.60[1]	39	4.1
Manufacturers Trust, N. Y.	3,258	2,966	1,268	1,255	865	701	43.95	4.07	4.06	2.00	53	3.7
Mellon National, Pittsburgh	1,834	1,753	969	1,013	502	375	110.68	8.53	8.62	4.00[1]	154	2.6
National Bank of Detroit	1,766	1,803	673	706	661	654	51.07	5.22	5.19	2.00	65	3.0
New York Trust	891	743	375	399	199	151	70.71	6.26	5.94	3.75	90	4.1
Philadelphia National	995	935	439	436	209	174	33.56	2.91	3.14	1.90	42	4.5
Security 1st Nat'l., L. A.	3,087	2,773	1,273	1,196	1,265	1,107	37.88	3.59	3.56	1.60	57	2.7

*—Net operating or indicated earnings
N.A.—Not available

1—Plus stock.
2—Includes City Bank Farmers Trust Co.

of the year. However, the U. S. Treasury 90-day bill rate tended to remain above 3% and the prime loan rate remained at 4½% so the late change in Federal Reserve policy had little effect on 1957 bank earnings, whatever it might forbode for 1958 earnings. There was a small increase in the overall average volume of loans and investments in 1957 compared with 1956 and average interest rates and average volume of commercial and industrial loans increased sharply, notably in New York where prevailing rates were lower at the start of the year and there was substantial unused lending capacity. The net operating earnings of twelve large New York banks as a group increased 13% in 1957 compared with 1956, with individual increases as high as 19%. 1957 was the third consecutive year of significant increase in earnings of these banks with an increase of almost 17% in 1956 and 15% in 1955, for an aggregate increase over the three-year period of 52%. The earnings of these banks have more than doubled since 1950.

1958 Reversal and Recovery

The decline in interest rates first signaled by the reduction in the rediscount rate from 3½% to 3% in November 1957, accelerated in 1958 reflecting the reduced demand for loans and the aggressive open market operations and easy money policy of the Federal Reserve Board. The prime loan rate was reduced in January from 4½% back to the 4% rate which had prevailed in the first eight months of 1957 and was subsequently reduced to 3½% in April. The Federal Reserve implemented its easy money policy by aggressive open market operations and reduced reserve requirements against demand deposits in three stages between late February and late April from 20% to 18% for Central Reserve City Banks, from 18% to 16½% for Reserve City Banks and from 12% to 11% for Country Banks. The overall volume of loans and investments increased sharply. The rediscount rate was reduced by three reductions in quick succession from 3% to 2¾% late in January, to 2¼% in the early part of March and to 1¾% in April. The U. S. Treasury 90-day bill rate collapsed to 1.055% by the end of April and to .635% by June. By the end of June the Federal Reserve apparently had completed its policy of aggressive increase in the money supply and strove for stability by maintaining a relatively neutral attitude. Finally, on August 14, the discounte rate was initially increased from 1¾% to 2% in a dramatic reversal of Federal Reserve policy and the prime loan rate was increased from 3½% to 4% on September 12. In October the discount rate was raised again, this time from 2% to 2½%, as the bill rate approached the 3% level.

Bank Earnings Maintained

It would be hard to imagine more rapid changes in money market rates or more abrupt reversal of trend of interest rates than occurred in these two years. One might naturally expect a decline in earnings to reflect this large change in current interest rates but per contra bank earnings were well maintained and, in fact, increased in the first nine months of the year at least (much as bank earnings were maintained and increased in 1954 which was a closely comparable year). Furthermore, based on Federal Reserve figures the banks actually received a higher average rate of return on both loans and investments in the first six months of 1958 than they received in the first six months of 1957.

A great many reasons may be advanced for this favorable performance; the most important being that current interest rates are only part of one factor affecting bank interest income. Interest income is determined by the average volume of loans and investments and the average rate received on average loans and investments. It follows that:

1. Even very large movements in current interest rates have relatively little effect on average rates if they last only a short time.

2. The effect of a decline in average inteerst rates may be at least offset, or more than offset, by an increase in the average volume of loans and investments (the average volume of loans and investments through November 1958 compared with same period of 1957 increased approximately 8.4% for New York weekly reporting member banks and 6.6% for weekly reporting member banks in leading cities).

3. The change in average volume of loans and investments is the net of the movement of the average volume of loans and the average volume of investments. When loans decline banks increase investments, some of which may be tax exempt, rather than have idle funds, and what is more important, aggressive open market operations of the Federal Reserve System, particularly in conjunction with reduction in reserve requirements, result in a much larger increase in investments than the decline in loans.

Nine Months Earnings Increase

Net current operating earnings before income taxes of all member banks increased approximately 3% in the first six months of 1958 compared with the first six months of 1957. Net current earnings after income taxes of twelve large New York banks (Bankers Trust, Bank of New York, Chase Manhattan, Chemical Corn, First National City, Guaranty Trust, Hanover Bank, Irving Trust, Manufacturers Trust, J. P. Morgan, New York Trust, U. S. Trust) increased 4.2% in the first six months of 1958 and 1.0% in the first nine months of 1958 compared with the corresponding periods in 1957.

The nine months comparative consolidated earnings report of the twelve large New York banks showed an increase in interest income in 1958 in spite of lower interest rates and reduced volume of commercial loans, because of the large increase in interest and dividends on securities. The moderate increase in interest income plus an increase in other income increased total income by 4%. After deducting expenses and income taxes net operating earnings in the first nine months of 1958 were $2,016,000 (1%) more than net operating earnings in the first nine months of 1957. Net operating earnings in the fourth quarter of this year can be that much less than earnings in the fourth quarter of last year before there is any decline in earnings in calendar 1958 compared with calendar 1957.

The fourth quarter is normally the best quarter of the year and includes other operating income such as trust department income which may have been earned in the other quarters. It is also quite probable that there was a tendency on the part of management to understate income in the first three quarters of 1958. It is, therefore, almost impossible to accurately estimate fourth quarter results last year. However, considering the favorable nine-months figures and the improved current interest rates in the fourth quarter it appears mathematically certain that any decline in the earnings of these banks as a group in calendar 1958 compared with calendar 1957 will be small, although individual results will probably be mixed. I would add that banks in interior cities (Reserve City Banks) would probably show a moderate increase in earnings because their operations are not as closely tuned to money market interest rates as the New York banks.

Reappraisal of Bank Earnings

At the outset we commented on the favorable market performance of bank stocks in a year when interest rates faltered and bank earnings tended to level off. This favorable market performance of bank stocks indicated wider public acceptance of bank stocks and increased realization of the strategic position the banking industry occupies in our dynamic economy. More particularly bank stock prices advanced because:

1. Bank earnings tended to stabilize at an all-time record high level in a year of recession and declining interest rates.

2. Stability of earnings was a mark of honor and distinction in a year when earnings in most industries declined.

3. The record showed that bank earnings had increased in 1954 under similar conditions and then had increased substantially in the following year.

Another year of favorable earning performance under difficult conditions brought to the attention of investors, with renewed emphasis, the fact that while bank earnings increase in periods of prosperity they stabilize in periods of recession. This sounds like a perfect sort of earnings outlook and I think it is. It results from the fact that variation in the money supply has proved to be one of the most effective factors in achieving economic stability, but as a practical matter, the net variations over a period of time have been expanded. In times of prosperity the money supply must be increased no matter how grudgingly, in order to provide the legitimate needs of commerce and industry in a growing economy. In times of recession, as in 1958, the money supply is artificially increased to stimulate the economy to start expanding again. Since enlargement in the money supply (deposits and currency) have proved to be substantially permanent, the banking business has benefitted and should continue to benefit from an increasing volume of loans and investments, with loans increasing in periods of prosperity and investments increasing in periods of recession. Interest rates go up in prosperity and soften in depression, but the duration of periods of recession tends to be restricted by the application of the full powers of the Federal Government and periods of softer interest rates, therefore, do not last long enough to materially reduce the average rate received by banks on loans and investments which is protected by term commitments. In brief, bank earnings benefit over a period of years from increasing overall volume of loans and investments and stable to increasing average rate received.

It appears to the writer that the public will both cause and accept application of a higher multiplier to bank earnings in appraising bank stocks, because of the certainty of bank earnings in periods of recession and the increase in bank earnings in periods of prosperity. The acceptance of a higher multiplier will also result from greater investor knowledge of the built-in *(Please turn to page 432)*

Greener Pastures Ahead for . . .
MEAT PACKERS?

► **Fresh reappraisal of all vital factors in the packing industry—weighing the impact of mounting meat supplies and profit margins . . . with side-by-side breakdown of annual 1958 company reports, plus 1959 earnings-dividend projections.**

By RING HARALDSEN

THE patter of pigs' feet is sweet music to the meat packers, and when an estimated 42.5 million porkers who survived birth this fall toddle off to market next spring, the industry's buyers should rub their hands joyfully in anticipation of the lower prices they will undoubtedly be paying for hogs on the hoof. Livestock supply conditions, particularly hogs, are the primary determinant of meat packer earnings. The prices they pay for the live animal are extremly sensitive to supply variations, while wholesale and retail prices are far stickier, the latter being largely dependent on consumer buying power and an inclination to switch to other protein foods when fresh meat prices exceed family budget limitations.

In the fiscal year ended October 31, 1958, meat packer earnings showed favorable comparisons with the previous year, despite the fact that livestock conditions had not materially improved, but it is the year ahead on which we now focus our attention. Even though meat packing shares enjoyed good market performances in 1958, there is good reason to feel that industry conditions have improved to such an extent that further market advances are a good speculative possibility.

Industry Background

It is necessary to understand the conditions under which the meat packers have been operating, and what, if any, changes have been effected, before examining more recent developments.

Meat packing is an extremely competitive industry, with over 3,000 livestock slaughtering establishments which process over 30 billion pounds of live animal annually. This fact, together with the problem of varying animal supplies and some questionable management philosophies regarding plant utilization, is responsible for one of the most cyclical earnings records to be found, and this in an industry basic to our very livelihood! Attention is directed first to the problem which will in all likeli-

hood continue to exist to some degree and over which the packers exercise absolutely no control—that of variations in livestock supplies.

Sell Corn or Raise Hogs?

Fluctuations in hog supplies have long been the chief cause of the highly cyclical earnings records of packers. Not only are the bulk of packers' physical facilities devoted to processing hams, bacon, and other pork products, but the time required to bring a hog to marketable weight is so short (six months compared to three years for beef cattle) that the farmer can quickly alter his plans according to the variations in the factors he must consider.

Corn is the primary feed for hogs and depending on the market prices for corn and the price he can expect to get some time in the future for live hogs, the farmer will adjust his plans accordingly. These factors are conveniently combined into the key statistic known as the hog-corn ratio, which is the number of bushels of corn equal in value to 100 pounds of live hog. A level around 12 has been considered to be the break-even point, above which it is more profitable for the farmer to utilize his corn crop as feed. The ratio, which stood at 9.4 in January, 1956, has risen to over 20 this year and at last computation (December 31, 1958) was at 16.3. In recent years, the ratio has not proved as reliable an indicator of future hog production as it formerly had because of government corn support programs. However, the corn belt farmers have decided to operate in a freer market, with parity prices reduced and acreage restrictions dropped. With this development, some crosscurrents have entered the picture and the ability to forecast the effect of this decision has been hampered. At first glance, it would appear that unrestricted corn crops seeking their normal price level would have a deleterious effect on hog supplies, spelling trouble ahead for the packers. But the government has indicated that it might step in and support pork prices should they falter. On balance it is reasonable to assume that the fluctuating pattern of the past will persist in the hog-corn ratio.

Margin Squeeze

The aforementioned meat packers' philosophy toward plant utilization was a desire on the part of the packers to keep their outmoded, sprawling, excess-capacity plants operating at all costs in the belief that it would be cheaper than shutting down when supplies dried up. Admittedly it is not easy to quickly shut down and start up such tremendously large organizations, especially considering labor union problems. However, in their misguided eagerness to follow this path, prices were often bid up to unrealistic levels. With meat costs accounting for about 75% of expenses against revenues, and plant overhead considerably less, it is apparent that profits were not aided by these policies.

Consumer prices, on the other hand, are not the flexible item that prices for meat on the hoof are, and as a result, in periods of short animal supply, packer earnings deteriorate. The consumer's food budget is a rather rigid affair and when prices rise for better cuts of meat, the consumer downgrades to less expensive cuts.

Not only are the packers competing with themselves, in a sense, but also with the hundreds of firms bidding for the available supplies so that they, too, can keep their facilities operating. Then, also, the large packers cannot easily abstain from bidding when conditions are unfavorable for the stigma of anti-trust action could result.

Capital Expenditures

Recognizing their more basic problems of having to operate with outmoded, inefficient plants, the packers have spent huge sums since the end of World War II in efforts to renovate, relocate and revive their sagging profit margins. Management cannot really be blamed for desiring to keep their plants going, but they have long been saddled with facilities incapable of producing satisfactory earnings under anything but optimum conditions. Armour and Swift alone have expanded over $500 million since 1946, while the other leading industry factors have also spent sums commensurate with their respective shares of the market. It is difficult to say what effect these outlays have had on margins. On the surface, one might argue that the industry has done nothing to improve its lot since margins are still less than 1% of sales after taxes. However, older plants which had been severe drains on earnings have been closed, and newer plants built on a decentralized basis closer to sources of animal supply. Rising rail freight rates and rapid strides in truck refrigerated transport have made it cheaper to process the animal first, then ship the dressed meat to eventual markets, although it remains to be seen whether these expenditures will bring about real operating efficiencies and it is reasonable to expect that on a longer range basis, some economies will be effected. As the following table indicates, it only takes a small change in margins to bring about significant changes in earnings per share. This is generally considered to be the principle speculative attraction in the shares.

Company	*Number Shares (000)*	*Sales per Share*
Armour	4,677	$414
Cudahy	1,542	243
Hygrade	528	776
Morrell	825	485
Swift	5,909	456
Wilson	2,234	307

Current Industry Developments

Livestock supplies, particularly hogs, have now taken a decided upturn. Reference to the table entitled 'Livestock On the Farms' reveals what has gone before. Hog supplies had declined over 15% from 1952 and about 6% since 1956. It has only been in the late months of 1958 that hog slaughterings showed year-to-year gains.

Livestock on the Farms (000 omitted)

At Jan. 1	*Cattle (less milk cows)*	*Hogs*
1958	71,610	51,559
1956	73,591	55,173
1952	65,008	62,117

The latest U. S. Department of Agriculture forecasts of pig crops makes pleasant reading for all

Statistical Data on Leading Meat Packers

	Net Sales 1957	Net Sales 1958	Earnings Per Share 1957	Earnings Per Share 1958	Net Profit Margin 1957	Net Profit Margin 1958	Dividend Per Share 1957	Dividend Per Share 1958	Price Range 1957-58	Recent Price	Div. Yield
	(Millions)										
Armour & Co.	$1,935.7[1]	$ N.A.	$ .72	$1.18	1.7%	N.A.	[3]	—	23⅝-12⅛	22	—
Cudahy Packing	340.1[1]	369.0[1]	1.05	1.46	.6	7%	—	—	15 - 5½	13	—
Hormel, G. A. & Co.	335.0[1]	360.9[1]	5.74	5.18	1.0	.8	2.50[4]	2.50	60½-48¾	56	4.4
Hygrade Food Products	380.8	411.4	2.37	2.39	3.5	3.3	1.00[4]	1.00	24 -13⅜	22	4.5
International Packers	29.9	22.2[2]	.94	.33[2]	5.9	4.0[2]	.50	.50	11¾- 6⅝	11	4.5
Morrell, John & Co.	394.3	400.0[5]	.62	2.80[5]	.1	.6[5]	.50[4]	.30	22⅜-10⅛	22	1.3
Swift & Co.	2,542.2[1]	2,645.3[1]	2.29	1.70	.5	.4	2.25	1.60	42½-26¾	34	4.7
Wilson & Co.	640.9	685.8[5]	2.19	3.07[5]	.8	1.1[5]	1.00	1.00	33½-13	31	3.2

N.A.—Not available.
1—Fiscal year ended Oct. 31.
2—6 mos. ended June 30, 1958.
3—10% stock.
4—Plus stock.
5—Estimated.

interested in the meat packers' fortunes. The crop this year totalled 94.8 million head, up 8% over last year. The fall crop was up 17% and next spring's is expected to be up 13% over last spring. These increased supplies will not be reflected in 1957-58 earnings, since the packers had little, if any, time to assimilate these improvements into profits. They will be felt in earnings of the current fiscal year and undoubtedly carry over into at least the forepart of fiscal 1960. Beyond that, it is difficult to predict hog supplies with any sort of assurance.

Beef Herds Being Built

It was only about 1½-2 years ago that the great seven-year drought in the western and southwestern states was broken. Cattlemen are still in the process of building up their beef cattle herds, but with a three-year growing period, we can expect to see increased marketings in the 1960-61 fiscal years.

A Smoother Seasonal Pattern

In the past, livestock marketings have been highly seasonal in nature. Hogs especially, which were formerly born in the spring, fed on new corn in the fall, and brought to market for slaughter in early winter, are now marketed in a more uniform fashion. This smoothing of the seasonal peaks and troughs has allowed the packers to operate their plants more efficiently.

Cattle and By-Products

Only 55-70% of the animal is useable as meat and although the bulk of revenues comes from meat sales, it is generally believed that profits thereon are quite small since the wholesale value of the meat is the same as, if not less than, the cost of the live animal. It is easy to see that the effective utilization of the by-products makes an important contribution to earnings. These include drugs derived from glands, leather, hair, soap, Lanolin (a component of wool grease) and a variety of other useful products.

Market Considerations

It is understandable that in deference to their erratic earnings records and cyclical nature of the industry the market has not seen fit to value meat packing shares very generously. However, the possibility of better earnings patterns, and consequent dividend payments (now that cash requirements for capital needs are somewhat diminished) together with basic improvements in operating efficiency, could prompt investors to place high price-earnings multiples on the shares. This is not to say that the industry has shed its onerous characteristics, for it is difficult to perceive an end to fluctuating livestock supplies and margin squeezes. Currently, though, the stocks do appear to be well into an upswing and with longer range improvements coupling with favorable shorter term factors, 1959 could prove successful in terms of market performance.

Investment Discussion

Swift & Company is the world's largest factor in the meat packing industry and by and large has managed to gain the greatest market following. Its dividend record has been good, and earnings have been recorded in each year since 1946. In only three years of the last 50, 1921, 1932, and 1938 have losses been reported, a particularly noteworthy achievement in so volatile an industry. Primarily responsible for this performance has been a capable management, quick to recognize and act upon needed company reorganizations, a well entrenched market position, and an accounting system which tends to flatten the cyclical pattern, thus negating to a large extent at the reported earnings level, the changes in supply and price conditions for livestock. Swift accounts for nearly a fifth of federally inspected domestic meat slaughter, and its activities embrace substantial foreign interest, particularly in Canada, England and Cuba. The company operates about 50 packing plants and over 100 dairy and poultry plants, in addition to a number of sales branches and by-product factories. A measure of diversification is present in Swift's ownership of Globe Life Insurance and Security Mutual Casualty Company. Swift's internal reorganization and capital improvement program may well have peaked out and significant savings have already been made. Earnings in the year just ended declined to their lowest level since the war, necessi- *(Please turn to page 440)*

FOR PROFIT AND INCOME

Seasonal

With respect to net change in the market level, February has the worst long-term record of any month in the year. In it there has been some decline by the industrial average in 33 out of the last 62 years, some gain in 29 years. Bear in mind that the mathematical odds theoretically favor gain in any month, because bull markets have a much longer average duration than bear markets and generally are of broader scope. The best market months historically are July, August and December. What February may bring in any given year is, of course, guesswork. There is a stronger technical case at this writing for a market correction than in a long time. We do not view February, 1959, with confidence—nor the rest of January either, for that matter.

Mixed

In what has been widely advertised as a market reaching for the sky—and presumably bound to get there—the following stock groups remain relatively backward at levels ranging from materially to widely under highs attained variously in the period 1955-1957: Air transport, aluminum, aircraft manufacturing, chemicals, coal, copper, lead and zinc, machinery, metal fabricating, petroleum, paper, shoes, sulphur and textiles.

On Stilts

The stock groups that have had particularly wide advance over past highs are drugs, finance companies, food brands, food stores, electronics and office equipments. It is probably a safe forecast that, in relation to the market, they will not do as well in 1959 as 1958. Some groups which had above-average 1958 recoveries and which are believed unlikely to be among this year's leaders are agricultural equipment, communication, mail order stocks, meat packing and liquor.

Valuation

In the case of most stock groups which have risen sharply,

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Addressograph-Multigraph	Quar. Oct. 31	$ .64	$ .46
Associated Dry Foods	Quar. Nov. 1	1.23	1.05
Gimbel Brothers, Inc.	Quar. Oct. 31	1.20	1.04
Texas Utilities Co.	12 mos. Oct. 31	2.72	2.53
Allied Stores Corp.	Quar. Oct. 31	1.03	.79
Hamilton Watch	Quar. Oct. 31	1.15	.94
Brown-Forman Distillers	6 mos. Oct. 31	1.53	.53
Coca-Cola Co.	Quar. Sept. 30	2.60	2.41
Madison Square Garden	Year Aug. 31	.77	.69
Federated Dep't. Stores	13 weeks Nov. 1	.94	.83

average price-earnings ratios are uncommonly high. In that of cigarettes, most issues have not yet regained old highs, much of the group's sharp rise over the last 18 months or so has been accounted for by exceptional gains in Lorillard and Reynolds, and all issues are still reasonably priced in relation to past valuations and to general market valuation today. On estimated 1958 profits, price-earnings ratios range from roughly 10.0 to 12.0. They are well under the average for industrials generally. Dividend yields are above average. Sales are trending up. At least moderate further 1959 profit gains are likely. Performance of the group can hardly be exciting this year. But, with so many stocks excessively priced, Reynolds Tobacco and American Tobacco strike us as comfortable equities to own; and, in comparison with the general list, Lorillard—now off to 80 from high of 89—looks more appealing than it did a few weeks ago.

Off Considerably

Among individual stocks which are not performing well at this writing and which are down considerably from their best 1958 levels are: Aluminium, American Hardware, American Potash, Avco, Bausch & Lomb, Boeing, Butte Copper, Case, Consolidated Cigar, Consolidated Electrodynamics, Copper Range, Deere, General Portland Cement, Grace, Hercules Powder, International Nickel, International Shoe, Johnson & Johnson, Kennecott Copper, Link Belt, Magnavox, Mesta Machine, Miami Copper, National Acme, Parke Davis, Reliance Mfg., Royal Dutch, Scovill Mfg., Sun Oil, Tidewater Oil, Vick Chemical and Wrigley.

Cement Stocks

Both in actual level and in relation to the industrial list, the cement stock group reached a peak around mid-summer of 1956. It has not since been approached. Although their relative popularity has been considerably reduced, the stocks continue to sell at high multiples of earnings; and dividend yields are below average in most cases. One big factor in the group's earlier popularity was anticipation of benefits for the industry from the vast Federally-sponsored road - building program. The latter is now accelerating, but is not scheduled for maximum annual outlay before 1962. The Bureau of Public Roads estimates capital spending for highways at $6.2 billion in 1958, and forecasts a progressive rise to about $8.1 billion in 1962. In line with the old saying, the performance of cement stocks has been a case of anticipation being sweeter than realization. The industry has considerable excess capacity. By the time it is taken up, the greater part of the projected rise in road-building outlays probably will have been seen. While improvement is likely, earnings of cement makers will not boom this year; and the potentials of 1960-1961 could easily be exaggerated. The stocks appear amply valued.

Florida Utilities

Prospects for long-term growth in the revenues and earnings of the leading Florida utilities are, of course, promising. But, in keeping with the spirit of the times, as reflected in market inflation, the stocks are at prices which discount profit growth for a rather extended time to come. At 30, Florida Power Corp., recently split 3-for-1, is selling around 25 times probable 1959 earnings. Its average annual price was around 10 times earnings in 1949, 15 times in 1954 and 17 times as late as 1956. The past comparisons are generally similar for Florida Power & Light which, around 90, is now selling in the vicinity of 24 times likely 1959 earnings. Those who bought either stock a few years ago are getting a good investment return, and have no problem. Both are richly priced for new buying. On a two or three year perspective, Florida Power & Light probably offers more than Florida Power Corp.

Income

Probably there are still some conservative investors who prefer to get a decent dividend yield on any stocks they buy with surplus funds. In today's market they find that difficult. Indeed, it is impossible, if they define a satisfactory yield in terms of past standards. Typical of generally reduced current return on income stocks, representative utilities are now on an average yield basis of less than 3.9%. In 1957 the figure ranged between roughly 5.5% and 4.7%; in 1956 between about 5% and 4.5%. Among safe - dividend income stocks, you can get yields of 4.5% to 5% now only in issues with quite modest potentials for appreciation. A few examples are American Snuff, Equitable Gas, Kresge, Northern States Power, Public Service of Indiana and Woolworth.

Boosts Ahead

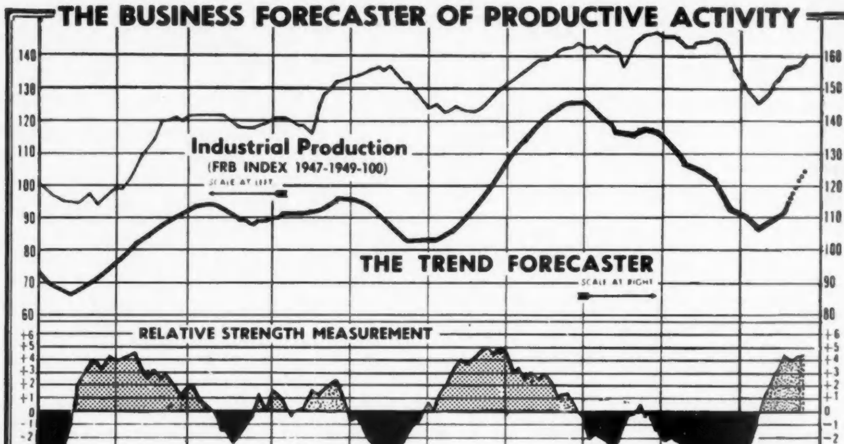
Among income stocks now selling on roughly an average yield basis (around or not far removed either way from 4%), there appear to be chances for some liberalization of dividend rates within 1959 in the following instances: Beatrice Foods, Beneficial Finance, Consolidated Natural Gas, First National City Bank, Indianapolis Power & Light, Lone Star Gas, National Biscuit, Brown Shoe, Kansas City Power & Light, Northern States Power, Middle South Utilities, Philadelphia Electric, Pacific Finance, Southwestern Public Service and Walgreen. How much? The answer has to be modest-to-moderate at best.

(Please turn to page 448)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Hayes Industries, Inc.	Quar. Oct. 31	$ .04	$ .56
Western Union Telegraph	10 mos. Oct. 31	1.36	1.60
Tennessee Corp.	Quart. Sept. 30	.51	.78
Miami Copper Co.	9 mos. Sept. 30	.56	3.04
Piper Aircraft Corp.	Year Sept. 30	2.36	2.94
Curtis Publishing	9 mos. Sept. 30	.12	1.05
Chicago Pneumatic Tool Co.	9 mos. Sept. 30	1.21	1.99
Truax Traer Coal	Quar. Oct. 31	.40	.60
Champion Paper & Fibre	Quar. Sept. 30	.36	.59
Amerada Petroleum	Quar. Sept. 30	.90	1.05

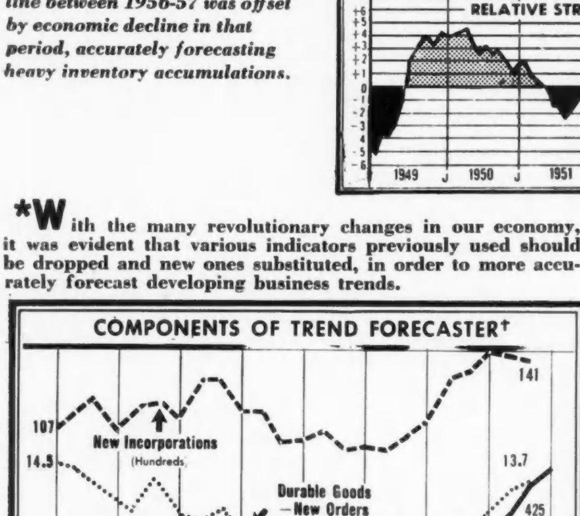
the Business



Business Trend Forecaster *

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developt over a period of several years), which employs those indicato (see Components of Trend Forecaster) that we have found t most accurately project the business outlook.

As can be seen from the chart, industrial activity in itse is not a true gauge of the business outlook—the right answ can only be found when balanced against the state of ou economy. The *Trend Forecaster* line does just that. When changes direction up or down a corresponding change in ou economy may be expected several months later.

The depth or height of the developing trend is clearly pr sented in our *Relative Strength Measurement* line, which r flects the rate of expansion or contraction in the making. Whe particularly favorable indications cause a rise that exceed plus 3 for a period of time, a strong advance in general bus ness is to be expected. On the other hand, penetration o minus 3 on the down side usually precedes an important con traction in our economy.

We believe that subscribers will find our Business Tren Forecaster of increasing usefulness both from the investmen and business standpoints.

Current Indications of the Forecaster

By all indications, the Trend Forecaster and th majority of its components have entered the new yec in a continuation of the uptrend from the lows c March, 1958.

In the closing months of 1958, the longer-term trenc of all of the eight component series except nonresider tial construction were rising, and even on a month-tc month basis a majority were pointing upward in eac month of the last quarter. The Relative Strength Measur throughout the last quarter of 1958 evidently remaine in the range above +4.

At the turn of the calendar year, it may be appro priate to add something about the interpretation of th Trend Forecaster for 1959. Based on the latest figures the Forecaster and its related series point to furthe cyclical improvement in business into the spring o 1959. The forecaster ordinarily has a "lead" of no more than six months, however, and it is not yet saying any thing about the **direction** of business trends in the las half of the year. Its behavior over the next severa months should begin to point the trend for later 1959

Analyst

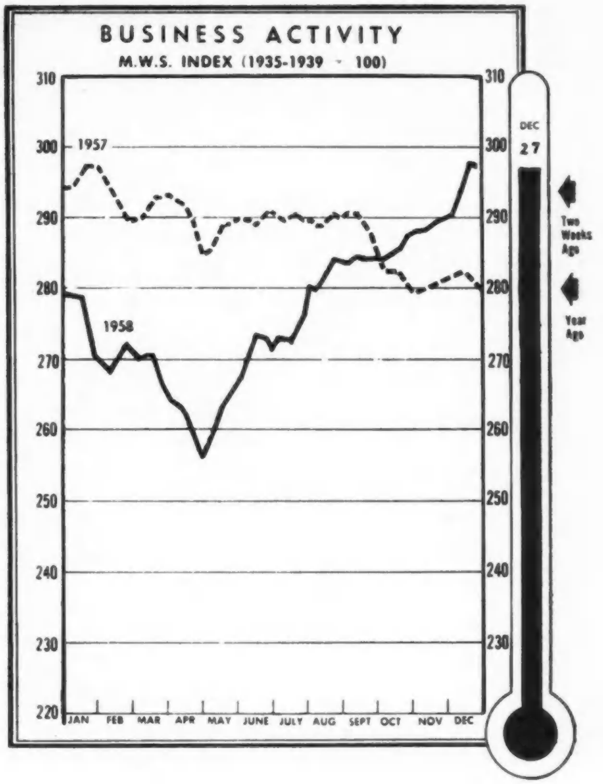
CONCLUSIONS IN BRIEF

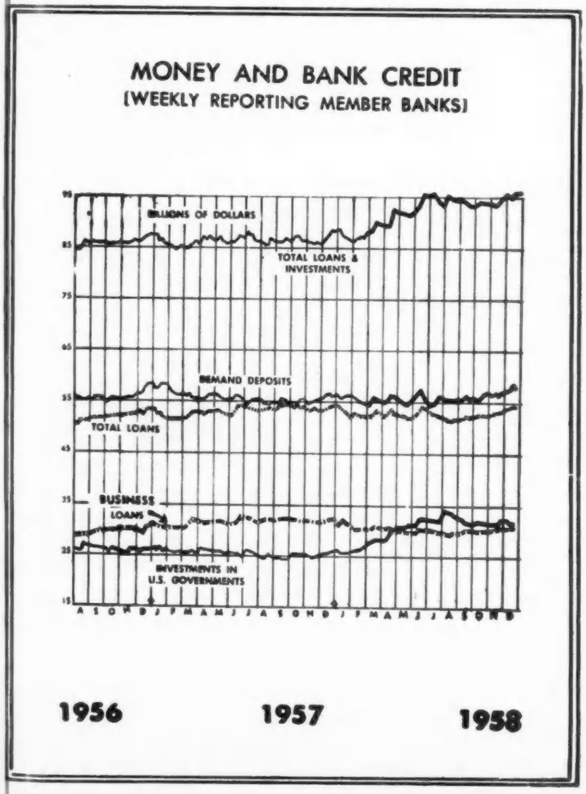
PRODUCTION—continued to rise in December, as auto production schedules were further accelerated. Machinery, and raw materials output, also advancing. Outlook: moderate further rise in next three months.

TRADE—Retail volume in December evidently set a new all-time high, a few percentage points above the same month of 1957. Auto sales have improved moderately, but not booming. Outlook: stable to slightly higher store sales in next three months.

MONEY & CREDIT—Funds still in adequate supply, interest rates firm, but not rising. Fear of inflation, which may lead to tighter money conditions, is being offset at least temporarily by obvious stability in prices themselves.

COMMODITIES—In general, the price level is in a slight, noncumulative uptrend. Advances in raw materials prices have been moderate, and only slight further gains are at all likely. Rising labor costs, until now offset by productivity gains, will press up on finished goods prices in early 1959.





WHILE the usual haze still beclouds the outlook for 1959 as a whole, there are some fairly clear outlines now visible for the first half of the year. Unless expectations of the most experienced economists in Washington and New York are far wide of the mark, this will happen in the first half:

Gross National Product—the total value of goods and services produced—will average about $463 billion; the rate in the last quarter of 1958 was a little over $450 billion.

Industrial production will average about 145 on the Federal Reserve's index (1947-1949-100), as compared with about 140 in the last quarter of 1958.

Housing starts will run at about a 1.2 million rate, seasonally adjusted. They will be in a slight month-to-month downtrend.

Retail sales will remain high, but not rise significantly above the present seasonally adjusted rate of slightly more than $17 billion per month. Auto sales will be better than in 1958, but may not greatly exceed a 5-million annual rate, even including import sales.

Prices, at both wholesale and retail levels, will rise only very slowly. At the moment, there is no indication of an inflationary excess of demand over supply in any sector of the economy. Indeed, it will take heavy promotion to maintain demand near enough to supply to avoid price deterioration.

Capital spending of business for new plant and equipment will rise moderately from its present quite depressed rate. But there is no likelihood that

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Nov.	141	138	139
Durable Goods Mfr.	1947-'9-100	Nov.	152	145	154
Nondurable Goods Mfr.	1947-'9-100	Nov.	135	134	128
Mining	1947-'9-100	Nov.	123	122	123
RETAIL SALES*	$ Billions	Nov.	17.2	16.9	16.9
Durable Goods	$ Billions	Nov.	5.6	5.4	5.7
Nondurable Goods	$ Billions	Nov.	11.6	11.6	11.2
Dep't Store Sales	1947-'9-100	Nov.	135	136	129
MANUFACTURERS'					
New Orders—Total*	$ Billions	Nov.	27.9	27.9	26.0
Durable Goods	$ Billions	Nov.	13.7	13.5	12.4
Nondurable Goods	$ Billions	Nov.	14.4	14.3	13.7
Shipments*	$ Billions	Nov.	27.2	27.6	27.2
Durable Goods	$ Billions	Nov.	12.9	13.4	13.5
Nondurable Goods	$ Billions	Nov.	14.2	14.2	13.7
BUSINESS INVENTORIES, END MO.*	$ Billions	Oct.	84.8	85.0	91.1
Manufacturers'	$ Billions	Oct.	49.3	49.3	54.1
Wholesalers'	$ Billions	Oct.	12.1	12.1	12.8
Retailers'	$ Billions	Oct.	23.5	23.7	24.2
Dept. Store Stocks	1947-'9-100	Oct.	152	152	155
CONSTRUCTION TOTAL	$ Billions	Nov.	4.4	4.7	4.2
Private	$ Billions	Nov.	3.1	3.2	3.0
Residential	$ Billions	Nov.	1.7	1.8	1.5
All Other	$ Billions	Nov.	1.4	1.5	1.5
Housing Starts*—a	Thousands	Nov.	1330	1260	1009
Contract Awards, Residential—b	$ Millions	Nov.	1206	1595	930
All Other—b	$ Millions	Nov.	1388	1714	1441
EMPLOYMENT					
Total Civilian	Millions	Nov.	64.7	65.3	64.9
Non-Farm	Millions	Nov.	51.3	51.1	51.8
Government	Millions	Nov.	8.1	8.0	8.0
Trade	Millions	Nov.	11.4	11.2	11.2
Factory	Millions	Nov.	11.9	11.7	12.7
Hours Worked	Hours	Nov.	39.9	39.7	39.3
Hourly Earnings	Dollars	Nov.	2.17	2.14	2.11
Weekly Earnings	Dollars	Nov.	86.58	84.96	82.92
PERSONAL INCOME*	$ Billions	Nov.	360	358	350
Wages & Salaries	$ Billions	Nov.	242	239	238
Proprietors' Incomes	$ Billions	Nov.	57	57	55
Interest & Dividends	$ Billions	Nov.	32	32	32
Transfer Payments	$ Billions	Nov.	27	27	23
Farm Income	$ Billions	Nov.	17	17	15
CONSUMER PRICES	1947-'9-100	Oct.	123.7	123.7	121.1
Food	1947-'9-100	Oct.	119.7	120.3	116.4
Clothing	1947-'9-100	Oct.	119.7	120.3	116.4
Housing	1947-'9-100	Oct.	127.9	127.9	126.6
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Nov.	110.3	110.0	105.9
Bank Debits*—g	$ Billions	Nov.	80.5	87.7	79.0
Business Loans Outstanding—c	$ Billions	Nov.	30.6	29.7	31.5
Instalment Credit Extended*	$ Billions	Nov.	3.6	3.5	3.6
Instalment Credit Repaid*	$ Billions	Nov.	3.4	3.4	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Nov.	5.0	2.8	4.8
Budget Expenditures	$ Billions	Nov.	6.2	7.1	5.8
Defense Expenditures	$ Billions	Nov.	3.6	4.2	3.4
Surplus (Def) cum from 7/1	$ Billions	Nov.	(10.1)	(8.8)	(6.9)

PRESENT POSITION AND OUTLOOK

outlays for machinery and manufacturing facilities will approach their 1957 peak at any time in 1959.

Corporate profits have already recovered sharply, and in the first half of 1959 will run at very satisfactory levels; perhaps at an annual rate of about $45 billion, before taxes.

* * *

THE FEDERAL BUDGET—there is an almost universal impression that the balance appearing in the Federal Budget for fiscal 1960—the year beginning this coming July 1—is illusory, to put it mildly. Virtually everyone expects that Congress will increase spending above the $77-billion figure now envisioned in the Budget Bureau's estimates. And the increase could be as much as $5 billion. Moreover, there is some question whether the receipts side of the ledger will in fact come up to its $77-billion expectation: to do so, corporate profits will have to rise to, and stay at, a level well above $45 billion.

Sober second-guessing on the budget for fiscal 1960 still suggests a deficit in the range of $5 billion; a lot better than the current (fiscal 1959) deficit, which is expected to be well in excess of $10 billion, but still far from a balance. This is something to watch in connection with the buying power of the dollar.

* * *

HOUSING—this $20 billion dollar industry has enjoyed a return to boom conditions, with a starts rate over 1.3 million a year in recent months. However, there is a likelihood that the rate of starts will have passed a peak by early in 1959, and the trend of the industry may be **down rather than up** in the coming year. The reason for this expectation is the gradual disappearance of federal assistance to housing, and the expected difficulties in the market for long-term funds. Indeed, the rate of applications for VA-FHA building has already begun to fall sharply.

* * *

CONSUMER CREDIT—in 1958, the total amount outstanding has hardly risen at all, and what increase there has been was localized in non-instalment types such as department store charge accounts, and service credit.

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 III Quarter	1958 II Quarter	1958 I Quarter	1957 III Quarter
GROSS NATIONAL PRODUCT	439.0	429.0	425.8	445.6
Personal Consumption	291.5	288.3	286.2	288.3
Private Domestic Invest.	53.7	49.2	49.6	66.7
Net Foreign Investment	0.5	0.5	0.5	3.6
Government Purchases	93.3	90.9	89.5	87.0
Federal	53.4	51.9	50.9	50.9
State & Local	39.9	39.1	38.6	37.8
PERSONAL INCOME	357.5	349.8	347.3	351.8
Tax & Nontax Payments	43.5	42.3	42.3	43.1
Disposable Income	314.0	307.5	305.0	308.7
Consumption Expenditures	291.5	288.3	286.2	288.3
Personal Saving—d	22.5	19.2	18.8	20.4
CORPORATE PRE-TAX PROFITS	—	32.0	31.7	44.2
Corporate Taxes	—	16.3	16.1	22.0
Corporate Net Profit	—	15.7	15.5	22.1
Dividend Payments	—	12.4	12.5	12.7
Retained Earnings	—	3.3	3.0	9.4
PLANT & EQUIPMENT OUTLAYS		30.3	32.4	37.8

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Dec. 27	297.2	297.4	281.9
MWS Index—per capita*	1935-'9-100	Dec. 27	221.2	221.3	212.6
Steel Production	% of Capacity	Jan. 3	75.8	68.2	58.6
Auto and Truck Production	Thousands	Jan. 3	115	126	94
Paperboard Production	Thousand Tons	Dec. 31	321 a	296	213 b
Paperboard New Orders	Thousand Tons	Dec. 31	365 a	255	308 b
Electric Power Output*	1947-'49-100	Dec. 27	244.8	246.1	224.1
Freight Carloadings	Thousand Cars	Dec. 27	432	471	410
Engineering Constr. Awards	$ Millions	Dec. 29	207	308	259
Department Store Sales	1947-'9-100	Dec. 27	205	304	158
Demand Deposits—c	$ Billions	Dec. 24	58.7	59.5	56.2
Business Failures	Number	Dec. 25	185	251	166

a—11 Days ending Dec. 31. b—10 Days ending Dec. 31.

PRESENT POSITION AND OUTLOOK

Personal credit played a smaller role in 1958 business conditions than at any time in the postwar year.

For 1959, the outlook for credit extension is an important element in the outlook for business as a whole. If a net growth in installment debt is resumed, it is bound to have helpful effects on many consumer durables industries—notably, of course, automobiles—and thereby on many major raw materials industries such as steel, nonferrous metals, paints, rubber, etc. If postwar history is any guide, the rate of instalment extensions should mount sharply in early 1959, as consumers find their increased incomes adequate to handle a further monthly commitment on credit. According to two recent surveys of consumers' attitudes, they are somewhat more willing to buy, although not yet in psychological shape for a boom.

Experts in the consumer credit field expect to see a rising volume of extensions, but no such burst of new credit formation as occurred in 1955, when the consumer debt burden rose by about $6 billion. A good present guesstimate would be for a net increase of perhaps $3 billion—enough to carry a 6.0 million auto year, and very satisfactory volume in appliances, radio-television, and furniture.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958-'59 High	Range Low	1958 Dec. 24	1959 Jan. 2
300 Combined Average	436.9	283.9	426.2	436.9H
4 Agricultural Implements	356.5	196.5	349.2	356.2
3 Air Cond. ('53 Cl.—100)	125.0	87.8	121.4	125.0H
10 Aircraft ('27 Cl.—100)	1252.4	982.2	1227.8	1252.4H
7 Airlines ('27 Cl.—100)	1079.6	638.8	999.6	1079.6H
4 Aluminum ('53 Cl.—100)	443.7	253.4	430.8	443.7H
5 Amusements	200.5	125.0	192.8	200.5H
6 Automobile Accessories	413.4	298.9	401.4	413.4H
6 Automobiles	97.5	40.8	95.6	97.5H
4 Baking ('26 Cl.—100)	38.7	28.5	37.9	38.7H
4 Business Machines	1317.2	898.2	1304.2	1317.2H
6 Chemicals	692.9	509.5	679.3	692.9H
4 Coal Mining	28.5	18.4	27.8	28.4
4 Communications	163.0	85.7	163.0	164.6
9 Construction	155.6	107.5	155.6	161.8
7 Containers	1131.7	707.3	1098.7	1131.7H
6 Copper Mining	292.5	184.6	277.9	280.7
2 Dairy Products	147.7	115.6	143.1	144.5
6 Department Stores	119.1	78.9	117.9	119.1H
5 Drugs-Eth. ('53 Cl.—100)	425.2	217.2	399.5	403.5
6 Elec. Eqp. ('53 Cl.—100)	271.4	195.8	266.1	271.4H
3 Finance Companies	747.2	568.8	719.3	712.1
5 Food Brands	406.3	255.5	398.3	406.3H
3 Food Stores	275.1	182.2	271.5	271.5

(Nov. 14, 1936 Cl.—100)	High	Low	Dec. 24	Jan. 2
100 High Priced Stocks	271.0	189.7	266.1	271.0H
100 Low Priced Stocks	585.4	334.7	566.6	585.4H
5 Gold Mining	962.8	530.5	844.6	962.8H
4 Investment Trusts	185.1	144.4	181.5	185.1H
3 Liquor ('27 Cl.—100)	1564.6	913.4	1504.4	1564.6H
8 Machinery	456.8	343.8	443.5	456.8H
3 Mail Order	262.3	143.3	243.4	253.1
4 Meat Packing	204.4	123.6	196.5	204.4H
5 Metal Fabr. ('53 Cl.—100)	181.4	138.1	176.0	181.3
9 Metals, Miscellaneous	381.5	278.3	365.7	369.4
4 Paper	1193.5	841.8	1170.1	1193.5H
22 Petroleum	852.1	629.7	835.4	852.1H
21 Public Utilities	345.1	258.9	338.3	345.1H
6 Railroad Equipment	86.9	59.2	86.0	86.9H
20 Railroads	73.1	43.0	71.7	73.1H
3 Soft Drinks	599.8	445.6	576.7	599.8H
12 Steel & Iron	392.5	249.3	381.1	392.5H
4 Sugar	142.1	102.8	130.4	142.1H
2 Sulphur	828.5	543.4	764.0	794.6
11 TV & Electron. ('27 Cl.—100)	69.8	28.8	69.1	69.8H
5 Textiles	178.4	106.9	176.6	178.4H
3 Tires & Rubber	216.1	142.3	211.9	216.1H
5 Tobacco	172.9	110.9	169.5	172.9H
3 Variety Stores	331.4	239.3	324.9	331.4H
20 Unclassif'd ('49 Cl.—100)	245.6	145.4	237.4	239.8

H-New High for 1958-1959.

Trend of Commodities

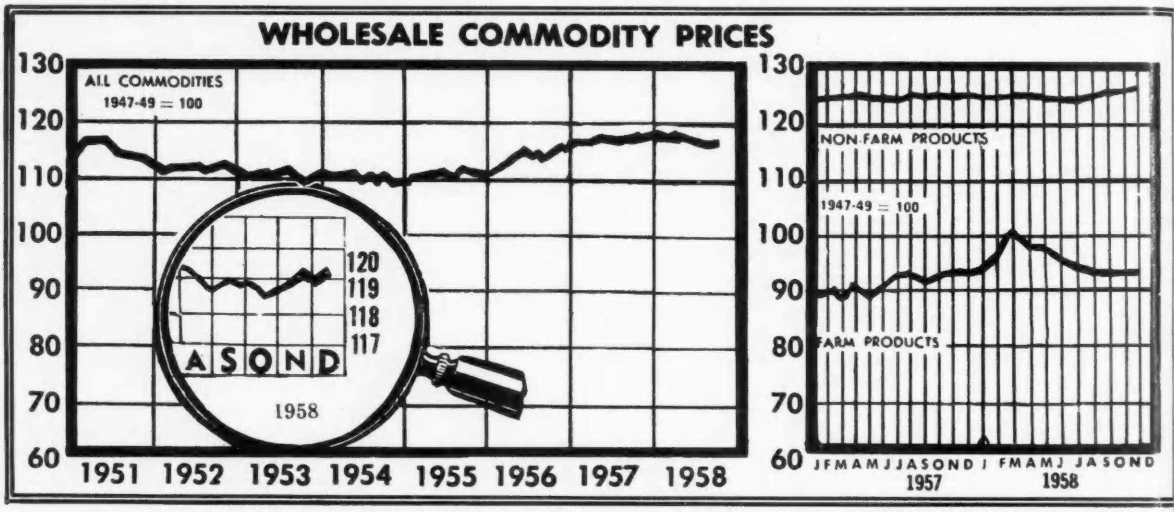
SPOT MARKETS—Sensitive commodities declined further in the two weeks ending January 2, extending the downtrend that started late in November. The BLS index of 22 leading commodities lost 1.0% during the period, and has surrendered most of the September-November gains. Foodstuffs were particularly weak, losing 2.3%. Raw industrial materials were more resistant to decline with this component giving up only 0.4%. In this category, metals were slightly higher while textile fibers gave some further ground.

The rank and file of commodities, meanwhile, continue in a slow up-trend that has been going on since October. Higher prices for manufactured goods are primarily responsible for this trend while farm and food products have been declining since early in 1958.

FUTURES MARKETS—Futures markets presented a mixed appea ance in the two weeks ending January 2, although the large changes were on the downside. Lower prices were registere by corn, soybeans, world sugar, lead, tin and cocoa, th latter being especially weak. Commodities to close highe during the period included cotton, wool tops, hides, rubbe and zinc. Most other futures were mixed. The Dow-Jone Commodity Futures Index lost 1.94 points, reflecting the acut weakness in cocoa.

Nearby wheat futures were little changed in the fort night ending January 2 while new crop options improved.

Although acreage seeded to new crop winter wheat is 2% above a year ago, the estimated harvest, if average cro conditions prevail, would be well under the 1958 level.



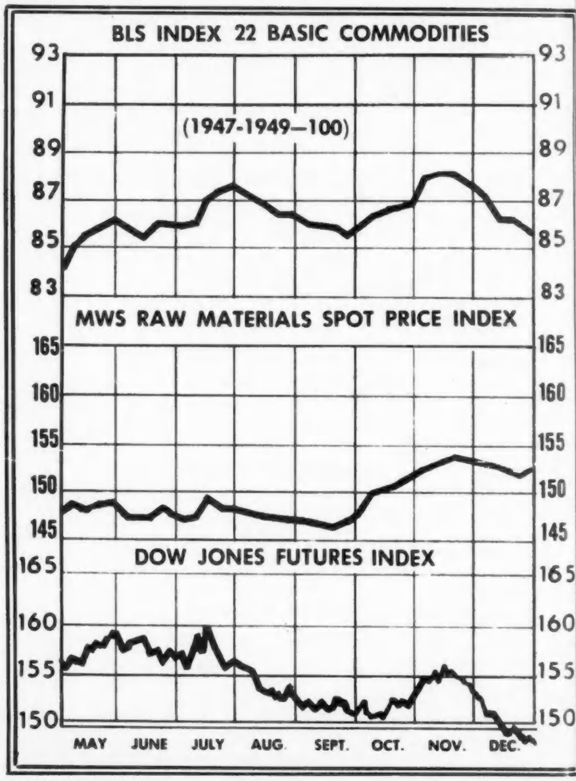
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Dec. 30	119.2	119.1	118.5	60.2
Farm Products	Dec. 30	91.1	90.7	92.6	51.0
Non-Farm Products	Dec. 30	127.2	127.1	126.1	67.0
22 Sensitive Commodities	Jan. 2	85.3	86.2	84.5	53.0
9 Foods	Jan. 2	79.9	81.8	85.6	46.5
13 Raw Ind'l. Materials	Jan. 2	89.0	89.4	83.7	58.3
5 Metals	Jan. 2	97.3	97.1	86.4	54.6
4 Textiles	Jan. 2	77.1	77.3	78.1	56.3

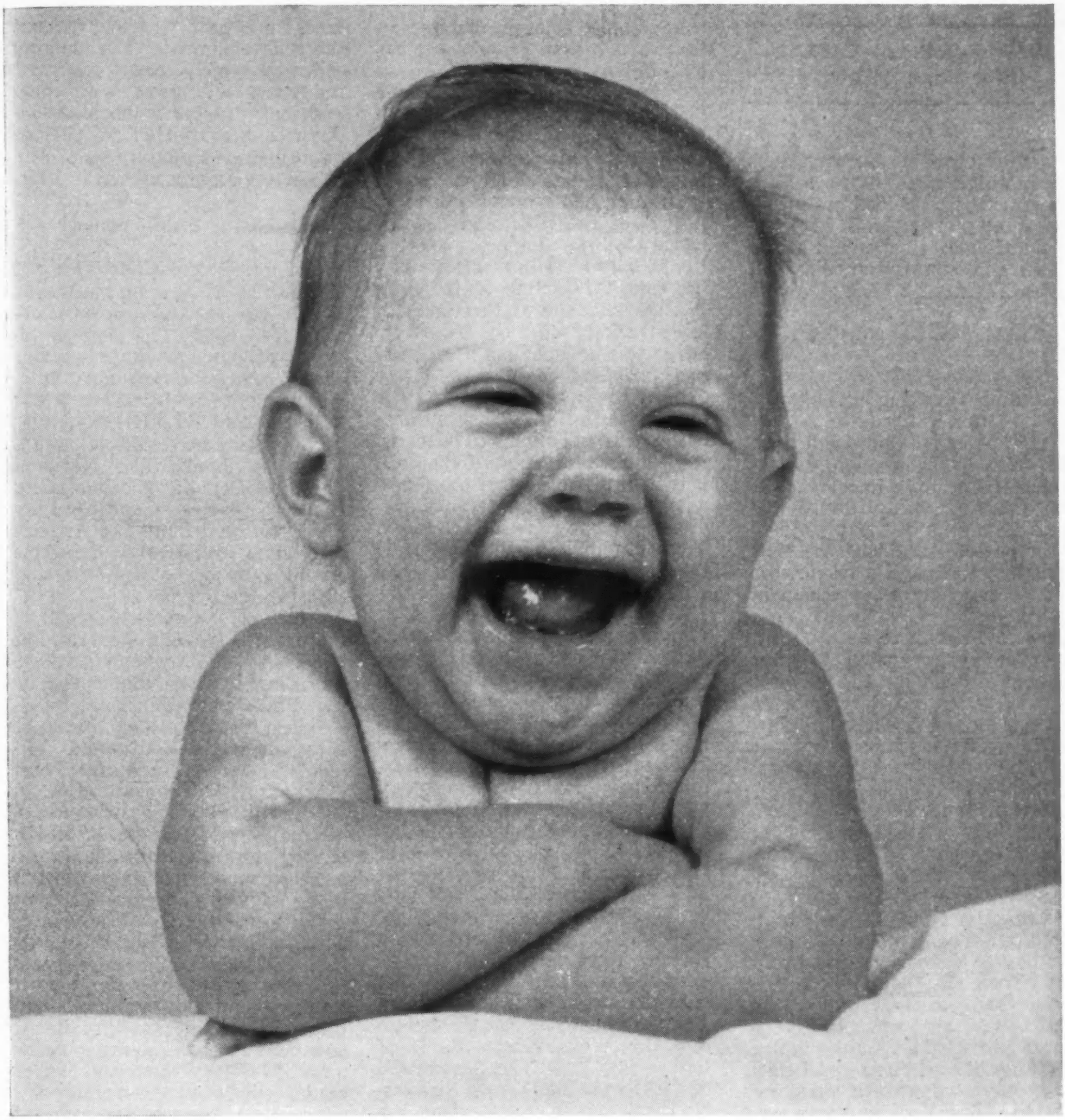
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1958	1957	1953	1951	1945	1941
High of Year	154.1	166.3	102.2	215.4	98.9	85.7
Low of Year	146.5	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	159.0	163.4	166.8	214.5	106.4	84.6
Low of Year	147.2	153.8	147.9	189.4	105.9	84.1
Close of Year		156.5	166.5	176.4	96.7	74.3





"So then U.S. Steel invested $770 million in us"

An American baby is born every eight seconds—11,000 every day—4,000,000 a year. Our population will soon be over 200 million. And as our population grows, our production must grow. We'll need millions of new homes . . . new schools and hospitals . . . new highways to carry 75 million motor vehicles by 1970 . . . not to mention countless appliances and conveniences that haven't even been invented yet!

No temporary setback can stop the growing needs of our population. That's why United States Steel has gone ahead with expenditures totaling $770 million to provide more and better steels for tomorrow's citizens. This is the practical way that we've demonstrated our faith in the future.

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United States Steel

1959 Investment Outlook for Bank Shares

(Continued from page 420)

growth factor in banking. The present high level of the securities market has turned the attention of investors to bank stocks as a field of investment where sound values and attractive yields can still be obtained.

Developments in Banking

In New York it is possible that the local banking picture may be materially affected by passage of legislation permitting formation of bank holding companies and or the enlargement of the New York State banking districts. It seems a fair appraisal at the present time that the New York City banks will not now be granted freedom of movement in any materially expanded area either by holding company legislation or by expansion of their banking district, but the ultimate probability of such developments may stimulate interest in New York City bank stocks as well as in some of the larger upstate banks.

The announcement on December 18 of the proposed merger of J. P. Morgan & Co., Inc., with the Guaranty Trust Company has considerable significance in appraising the New York banking situation. The continuing bank will be the third largest bank in New York City and the fourth largest bank in the country. The two banks are wholesalers of credit rather than retail banks, but the union of these two banks alters the balance of banking power in New York and may logically lead to further mergers. The effect of the merger will be felt nationally as well as locally, because it will go a long way towards increasing the pre-eminence of New York City as the center of wholesale banking, and mergers may take place in interior cities to restore the balance of power nationally.

In California, mighty Bank of America's position in state-wide branch banking is being challenged. In August, Frank L. King, President of California Bank, Los Angeles, announced tentative agreement on a proposed exchange offer whereby Firstamerica Corporation proposes to acquire 80% or more of the outstanding stock of California Bank by exchanging 3½ shares of Firstamerica for each share of California Bank stock outstanding. The Federal Reserve Board Examiner has recommended approval of the plan and concurrance by the Federal Reserve Board may have been granted by the time this article is in print. The stockholders of Firstamerica Corporation will be asked to agree to the exchange at the annual meeting on March 19 and subject to this approval and the approval of all necessary authorities the actual offer will be made. Assuming completion of the deal, it is then proposed that the Firstamerica's only California subsidiary, the First Western Bank & Trust Company, will be merged into the California Bank, Los Angeles, on terms yet to be announced. This will create a $2 billion bank which in itself is a fact of considerable importance, but the most important thing is that it will create a bank offering state-wide banking services, having 99 branches in the central and northern portion of California and 63 branches in metropolitan Los Angeles. It is probable that other San Francisco and Los Angeles banks may wish to offer state-wide banking services. It will also disturb the California banking balance of power and other banks may think it necessary to form larger units (witness the announced merger discussions between the American Trust Company of San Francisco and the Wells Fargo Bank of San Francisco). The acquisition of California Bank, Los Angeles, by Firstamerica Corporation has national significance in that the acquisition of the California Bank, Los Angeles, will enlarge the Firstamerica Corporation which is already the largest bank holding company in the country, controlling 23 banks having 322 offices in 11 western states and deposits in controlled banks totaling approximately $3 billion. The effect of the acquisition will not be felt in California alone but in all of the 11 western states served by Firstamerica and indirectly throughout the country as a whole.

The future of the banking business is bright with or without these developments. The banking industry which serves all other industries will grow with them and may prosper when other industries are affected by periods of adjustment. This was proved in 1954 and again proved in 1958.

Need For Discrimination

The favorable outlook for the banking industry is no reason for lack of careful study in purchasing bank stocks. The general advance of bank stock prices has caused many good quality interior bank stocks to sell on a par with those of the highest quality in this category. As a result, stocks of banks like National Bank of Detroit, National City Bank of Cleveland and Security First National Bank Los Angeles are today relatively attractive among interior bank stocks considering the quality.

I bow to the growth record of the interior banks in general, but I feel that solid investment values like First National Bank of Boston, Philadelphia National Bank, Peoples First National Bank of Pittsburgh and Continental Illinois National Bank & Trust Company merit consideration in balanced bank stock portfolios.

The New York bank stocks have lately been stimulated by prospective merger developments but, in my opinion, are still not overpriced. The New York banks doing both a retail and wholesale business, such as Bankers Trust Company, Chase Manhattan Bank, Chemical Corn Exchange Bank, First National City Bank, and Manufacturers Trust Company have top standing. These banks will benefit from improvement in either or both retail and wholesale banking. The Chemical Corn increased its dividend during the year and the Manufacturers Trust proposes to increase its dividend from $2.00 to $2.20 a share in conjunction with the proposed doubling of the par value of its shares from $10.00 to $20.00.

Among the banks doing both a retail and a wholesale business, **The First National City Bank** deserves special attention. This bank has unusually complete coverage of the entire banking business, both domestic and foreign,

(Continued on page 434)

(Continued from page 432)

and has both a favorable growth record and a strong capital structure.

The **Manufacturers Trust** also deserves special attention because it has always been a retail and a branch bank, practically from inception. It has more domestic branches than any other New York City bank and its stock, in my opinion, appears reasonable statistically.

We mentioned earlier that consummation of the proposed merger of **J. P. Morgan and Co., Inc.** and **Guaranty Trust Company** would alter the banking balance of power in New York. Because these two banks are both exclusively wholesale banks, the other New York bank most affected competitively could be **Hanover Bank**, which is a moderate sized money market bank. From point of view of size the banks most affected are Manufacturers Trust Company and **Chemical Corn Exchange**, which have been competing for the third position in size in New York, which will be preempted by the Morgan Guaranty Trust Company.

The realm of conjecture is unlimited but obviously mergers among the five large branch banks we mentioned would not be possible. The potential building blocks for the creation of another large bank are Hanover Bank, **Irving Trust Company** and **New York Trust Company**, whose management is currently opposing the efforts of a group of minority stockholders to force initiation of merger negotiations. It is also possible, though improbable that the Morgan-Guaranty combine at some time in the future might, as has already been rumored, throw in its lot with Manufacturers Trust Company for the ultimate in bank mergers to make a bid for first in size and dominance in both retail and wholesale banking. END

Major Analysis and Outlook for the Utilities

(Continued from page 417)

bonds and thus obtain public funds for further expansion. With lower rates made possible by Federal subsidies and very light taxes, TVA would then be tempted to make its power available to municipalities in private territory. Such municipalities might, by withholding franchises, by forced purchase, etc., take over the distributing properties of private utilities. This is the fear, but a TVA bill, to escape a veto, would have to meet these objections, it is argued. In any event the stocks of Southern Company, Middle South Utilities, Kentucky Utilities and other utilities adjacent to TVA have apparently not yet been affected by the threat of this legislation.

Senator Neuberger's bill for the proposed Columbia River Agency goes further in some respects than TVA—it would have only one administrator rather than a three-man board. Labor union support might push the bill to a vote, but opposition by the Administration should prevent passage over a veto. The feud between Senators Neuberger and Morse may prove helpful. Gov. Elect Hatfield of Oregon appears to be only lukewarm over some provisions of the bill and Washington State officials don't like proposed changes in the "preference clause" which has favored their state. Officials of Idaho and Montana seem definitely opposed. Hence, while the bill may cause considerable discussion, passage except in greatly modified form seems unlikely. The bill even if passed would have a "silver lining" in that it would give private utilities in Oregon greater access to Bonneville and other Federal power.

In New York State the sudden announcement of a plan to "firm up" the power from the two big hydro plants now being constructed came as a complete surprise. The huge size of the proposed plants, some 400-500,000 kw, would seem to be much greater than required for "firming" purposes. Despite the fact that earlier New York State legislation has prevented the Commission from "muscling in" on the territory of private utilities—which are to receive a substantial part of the new power when available — this new proposal, which obviously ignores the utilities' own elaborate expansion plans, raises renewed fears. Thus far, however, the project remains too indefinite to have much effect on stock prices.

Regarding increased pressure for public power participation in atomic power projects this would require a large appropriation and it is doubtful whether the Administration would go along with Congress. In any event, this phase of the public power fight would obviously have less effect on stock market values.

A very important item appeared in "Inside Washington" in our January 3, 1959 issue, which is well worth repeating, for it tells of a developing trend away from cooperative and publicly operated ownership back to private companies:

►A trend away from cooperative power production and distribution and back to the private company method is developing among those who know the two systems best because they have tried both. In such widespread states as Arizona and New Jersey, members of REA cooperatives were thinking alike.

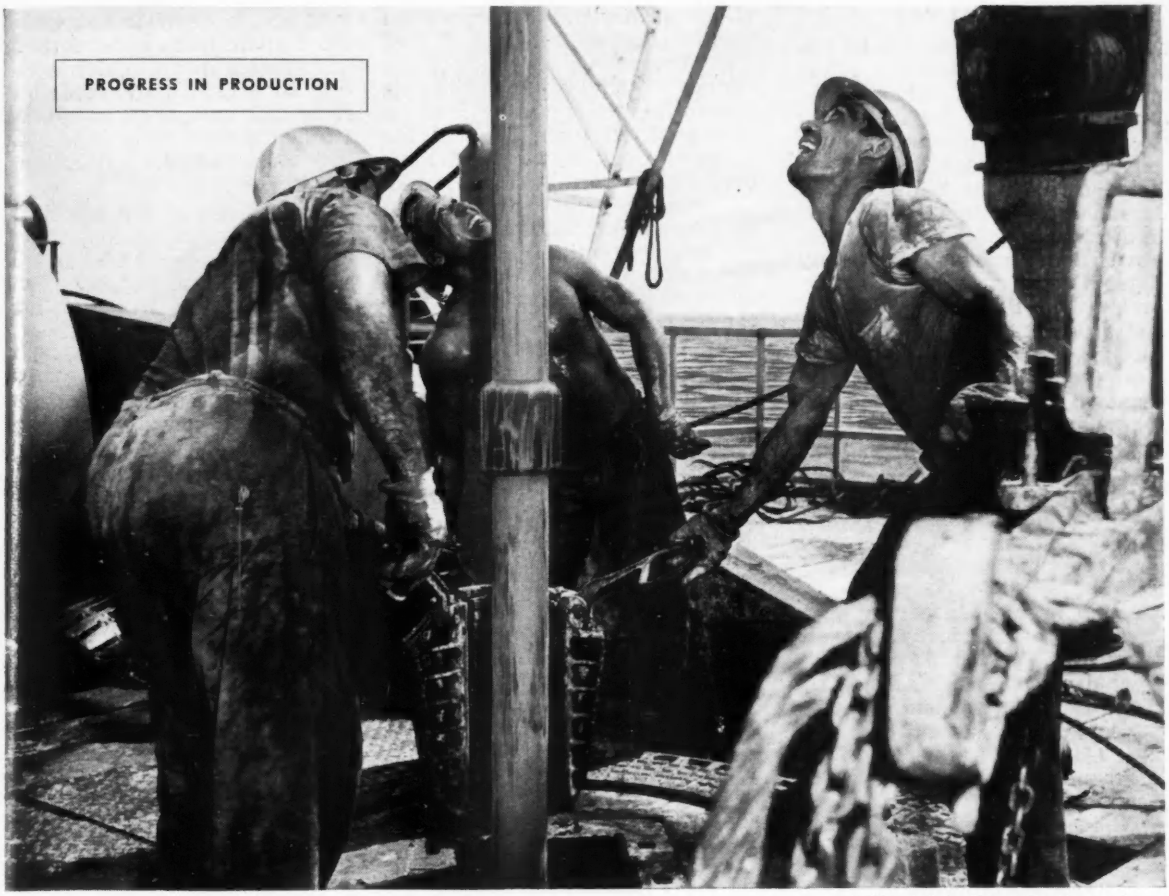
In Arizona, after more than a decade of considering the switch, a big bloc of patron members of the Verde Electric Cooperative at Cotton-wood voted to sell out to Arizona Public Service Co., which is privately owned. The utility paid $600,000 which approximates the outstanding mortgage of the Rural Electrification Administration facility. The sellers dropped their asking price by $97,000.

In New Jersey, Tri-County Rural Electric Cooperative at Freehold, has accepted the offer of privately-owned Jersey Central Power and Light Company. The National Rural Electric Cooperative Association made a fight against the deal but was smothered under assents to the deal personally spoken or expressed by proxy. The New Jersey Board of Public Utility Commissioners had ordered a $300,000 modernization program. This had the effect of chilling interest in retaining—and maintaining—the REA system. Co-ops must make a choice between doing both, or neither. The problem of modernization that has arisen, is likely to be duplicated elsewhere, with a similar solution forced upon patron-owners. ◄

Important Developments and Shifts

Among the communications

(Please turn to page 436)



Drilling in Lake Maracaibo, Venezuela

PURE hits oil 8 times in a South American lake

Our recently completed wells in Lake Maracaibo, Venezuela, are among the biggest potential producers we have anywhere . . . and more are on the way!

When you go all the way to South America to drill for oil in the middle of a lake, you take a risk. You can't avoid it. All you can do is make sure the risk is worth while and then go ahead.

When PURE and its associates (Signal, Sohio, and Hancock oil companies) took on a 43-square-mile concession in Lake Maracaibo, they had two things in mind. One, they wanted new sources of oil to help them meet the needs of the 102 million cars expected to be on the road in 1970. Two, they believed the Maracaibo Basin to be the greatest oil reservoir in the Western Hemisphere.

The results? Eight successful wells have already been completed, and more are underway. Added to Pure Oil's more than 5,500 other producing oil wells, they'll help motorists to be *sure* with PURE for many years to come. Just as you can be sure today at any of the nearly 16,000 Pure Oil dealers in 24 states.

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THE PURE OIL COMPANY, U.S.A. PURE

BE SURE WITH PURE

(Continued from page 434)

utilities, 1958 was marked by important new developments. After maintaining a $9 dividend rate for some 37 years despite strong stockholder pressure for a stock split or an increase in the cash dividend, **American Tel. & Tel.** on December 17th suddenly decided to do both. If stockholders approve (and who would make any wager to the contrary?) the 3-for-1 split will become effective next June, and in July the dividend rate is expected to become $3.30 (equivalent to $9.90 on the old stock). A. T. & T. has finally been able to get consolidated share earnings out of the $13 rut where they held for about three years, and is expected to report close to $14 for 1958 on average shares—despite the moderate impact of the recession in the first part of 1958.

General Telephone's merger with Sylvania (see Magazine of Wall Street, Dec. 6) was also a sensational development. Will this be the last of the important series of acquisitions, including the huge Gary System, Peninsular Telephone, and many small independent phone companies? **Western Union** has also been in the news, with a number of rate increases obtained which are expected to restore share earnings from an estimated $1.75 in 1958 to a potential $2.50 or more in 1959. END

What About Family Owned Corporations That Have "Gone Public"?

(Continued from page 413)

outstanding stock — 1,300,000 shares — was offered to outsiders at 39¼.

Campbell proved to be a recession-proof business, and sales have expanded steadily since the offering. At its present price around 49, 16½ times fiscal 1958's earnings of $2.95 per share, the stock yield 3.3 may seem a little austere to income-seekers.

The recent complicated maneuvers by a century-old corporate giant, **Great Atlantic & Pacific Tea Company,** probably foreshadow some larger secondary offerings in the future. Previous to the December recapitalization, the operating (Maryland) Corporation was fully controlled by A & P of New York, which held all of the former's voting stock, 62% of its non-voting stock and 37% of its preferred. In turn, 60% of the common stock of the New York corporation was held by grandchildren or great grandchildren of George Huntington Hartford, the founder, while the remaining 40% was in the hands of the John Hartford Foundation. This family control was so tight that even President Burger had no voting stock, although he wielded a powerful battle axe as head of the foundation.

A merger of the two companies and a far-reaching recapitalization was, however, voted on December 14th. Under this plan the Maryland common, both voting and non-voting, was exchanged into 10 common shares and the Maryland preferred into three common shares of the new company, while the entire interest of A & P of New York was converted into 17,563.205 split shares of the new company. A month prior to these changes, 2700 shares of the Maryland Company were offered in a secondary at 482, or $48.20 in terms of the now listed (NYSE) voting stock. These changes have created a unified company with a single class of voting stock, 19% of which is held by outsiders and 81% by Hartford heirs and the foundation. As it is no secret that there has been disagreement among the heirs, family control may not be as monolithic as it appears. In any case, the Hartford Foundation, following the example of the Ford Foundation, may wish to diversify its own assets. No dividend rate has so far been established on the new A & P stock but on an adjusted basis it is currently selling at about 22 times 1957-58 earnings.

A recent offering unusual for the exceedingly high price/earnings ratio it commanded was that of 2.410.000 shares of the 70-year old **Upjohn Company,** in December. While Upjohn stock has remained closely held by relatives or descendants of Dr. W. E. Upjohn, the founder, the old-fashioned process of natural distribution had progressed to the point where the stock was divided among over 150 individuals, trusts or estates, no single one of whom held over 6% of the total issue outstanding. But even with this fairly wide distribution, the Upjohn heirs apparently saw advantages in a regular secondary to which they contributed from 225 shares to as much as 197,500 shares each, thus reducing total "insider" holdings to about 59%.

Upjohn has shown a record of steady sales expansion, is very active in research, and has achieved several notable "firsts" in the drug field, including introduction of the first effective oral treatment for diabetes. Thus, while its offering price of 45, a multiple of about 35 times recent earnings, looked very generous, the offering proved popular and the stock has climbed to a small premium.

While product popularity alone is no assurance of financial success, universal familiarity with any company certainly lubricates the distribution of its stock when first public offering is made, as the examples above suggest. An entirely different picture is presented when companies, perhaps of equal venerability, but whose names are not a popular byword, also "go public." Here, greater effort is required of the underwriters and at best, the investing public will probably not appraise the companies' past earning power so generously.

Representative of such situations was Lykes Brothers Steamship Company, 400,000 shares of whose stock was offered in April of last year.

In contrast with Upjohn, this stock was offered at a mere six times recent annual earnings. This modest appraisal is explained by an irregular trend of gross revenue and, in some years, a very narrow profit margin before government subsidy, which make the issue distinctly speculative.

Among somewhat younger companies, a secondary of 827,400 shares of **Champion Spark Plug** at 28½ was carried out last September, reducing holdings of the Stranahan family to 76%. Earnings of this company have been more stable than for many automotive equipment manufacturers, and the stock seemed reasonably priced at about 12 times earnings.

Chock full o' Nuts, well known (to New Yorkers, at least) low-price restaurant operator and coffee vendor, contrasts with most

(Please turn to page 438)

(Continued from page 436)
of the other companies discussed in this article in that, prior to its offering last October, it had precisely two stockholders, its president (90%) and treasurer (10%.) Distribution of 400,000 shares by the former leaves these officers with 50% control. This enterprise, of course, lacks diversification and with a balance sheet of only $8 million, is still too small to interest many investors, but recent growth has been rapid and the appreciation over the offering price testifies to the public's favorable reception of the issue.

Reichhold Chemical's offering of 200,000 shares last March was not a secondary, but this manufacturer of synthetic resins and pigments has many characteristics in common with the other companies discussed here. Founder-president Henry Reichhold, together with a few associates, still holds 57.7% of the stock. This issue has shown such sharp appreciation above its offering price as to suggest that it was then rather undervalued.

Walt Disney Productions, although a relatively new enterprise, requires no introduction to any investor with small children. The 400,000 shares offered last August were sold by Atlas Corporation, but Walt and Roy Disney still control 68% of the stock. This company's film rentals have tripled in five years, while television income has swollen to sizable proportions in only three, and royalties are also carefully garnered from a variety of other sources. Disneyland (65.5% owned) has also been a "spectacular" success. However, at around 43, about 17 times earnings, the issue does look generously priced.

The secondary of 97,714 shares of **Thiokol Chemical Corp.** in September presented the somewhat unusual situation where the selling stockholder was another corporation rather than individuals. This block was sold by Olin Mathieson, which had received it in return for its Reaction Motors Division acquired by Thiokol earlier last year; control of this company is not excessively concentrated.

Typical of very new companies in which participation has been opened to the public at an early stage are **E. J. Korvette** and **Desilu Productions.** Korvette, which grew in only ten years from a small, second-story operation to a sales volume in excess of $100 million last year, first offered its stock on Wall Street in January 1956. Earnings, however, have failed to pace sales in their phenomenal expansion, and the early birds in this situation have not been heartily rewarded.

Desilu, in which a joint offering of 250,000 shares by the company and 275,000 shares by Desi and Lucy on their own account has just been made, represents a participation in varying proportions in a number of television shows. While this field is undoubtedly glamorous, recent earnings have been hardly more than nominal and the current position is weak, so that any outsider should enter this situation only with his eyes open. The non-voting stock will now be widely distributed, but Desi and Lucy are retaining 49%, and all officers and directors 100%, of the voting shares.

A Word of Caution

By being offered to the general public, particularly if they have been simultaneously listed, the stocks just discussed have reached corporate maturity. Prospective buyers should, however, consider a few words of caution. First of all, most of these secondaries, with conspicuous exceptions, represent relatively new and small enterprises. They are not seasoned investments. Secondly, in most cases the selling stockholder(s) will still retain a majority, or at least a large minority, interest. It is sometimes awkward to be a small outside holder in a company overwhelmingly controlled by insiders. A conflict may arise, particularly, over dividend policy. Most closely controlled companies, upon going public, will indicate some liberalization of dividends in order to sweeten the issue, but just the same the remaining large holders will often continue indifferent to regular income. In this and other policies a prospective outside buyer must ask himself whether his own investment objectives are consistent with those that the management is likely to follow. END

Greener Pastures Ahead For Meat Packers

(Continued from page 423)

tating a cut in the $0.50 quarterly dividend to $0.40, which, at the time of this writing, yields about 4.7% on an annual basis. While this is hardly generous for a cyclical company, the expected improvements in packers earnings should be especially pertinent for Swift, and dividend action commensurate with earnings are likely to be taken. It is not difficult to foresee earnings bouncing back to the $3 level this year.

Wilson & Company probably demonstrates the fruits of an ambitious capital spending program better than any other major packer. Having spent over $20 million in a six-year cost reduction and plant improvement program, margins in the fiscal year just ended rose to 1.1% after taxes from 0.9% the year before, substantially exceeding the other packers in this respect. Earnings were up about 40%, and with a materially improved outlook in the current fiscal year, further earnings gains are likely, probably to the $4 level, with $5 a good possibility under optimum conditions. Wilson is the country's third largest meat packer and is well represented in foreign countries, with meat processing plants in Argentina, Brazil, Australia and New Zealand. It is also the largest manufacturer of sporting goods in the country, its Wilson line being a symbol of excellence, but it is doubtful that these lines contribute more than 10-20% of earnings. Wilson has already declared its quarterly dividends for 1959 and the shareholder can expect to receive four terly, similarly declared, and This was raised from $0.25 quarterly similarly declared, and should the earnings improvement occur this year, another increase is possible.

Armour has spent heavily in common with its brother packers in an effort to overcome the vagaries of the industry in which it operates. This company's record over a number of years has been truly uninspiring, dividends having been paid only once since the end of World War II, in 1948. Deficits have been incurred in three years since that time, and net per share has ranged from the 1948 $1.25 deficit to as high as $6.15 in 1947. In the year just ended, there was some improvement, giving rise to some hope that Armour may finally have learned to overcome, (to a certain extent at least) its operating difficulties. Armour of all the companies under consideration here stands to benefit greatly from just a small gain in profit margins. It has sold its South American facilities to International Packers and made some sizeable savings in its operations. It operates 32 packing plants, 39 dairy and poultry units, 12 fertilizer plants, and 187 branch offices. Principal by-products are Dial Soap (which is experiencing sales falloff due to competition's new, heavily advertised products) and many pharmaceuticals. Armour is still spending large sums on its plant despite the outlays of over $200 million already and dividends must await a more secure earnings base. The lack of dividends makes a comment on the market price rather pointless, but on an earnings expectation of $2 or so and assuming no dividends, the stock does appear to be fully discounting expected recovery.

Cudahy's modernization program is thought to be practically completed. With the benefit of tax-loss carryforwards, Cudahy reported earnings of $1.46 for the year just ended, which on a normal basis would have been around $0.60. Cudahy's stock is preceded by both debt and preferred stock, giving these shares an additional leverage factor and making earnings more susceptible to price changes for livestock supplies. Earnings in the current year should improve as Cudahy is more dependent on hogs than some of the other packers.

Morrell (John) is another packer specializing in pork products. Its earnings improvement in the 1957-58 year was notable and further gains are anticipated in the current year. Morrell is the fourth largest meat packer and has turned in a better than average record. Its dividend record stands out in this industry and a more generous payment could be forthcoming at some time later this year.

Hygrade Food Products is a large producer of a variety of sausage and other manufactured items. Its modernization program is still underway, but earnings held up well in 1958 and should improve this year. A $1 dividend was paid in the past two years but latest dividend of $0.50 was declared this past November. This was supplemented by 3% stock.

International Packers has appreciated considerably since currency reforms were announced by the Argentine government. The company conducts meat packing operations in Argentina, Brazil, Australia and New Zealand. About half of sales go into the export market, the United Kingdom being the principal outlet. In the U.S. its products are marketed by Libby, McNeill & Libby and Swift. The earnings record has not been inspiring but the dividend record is good and with improved currency exchange, it is very possible that the parent will receive more dividends from its foreign subsidiaries, which combined, have a sales volume in excess of $200 million. This is far above the parent company's sales which came to $22.2 million in the first six months of 1958. END

International Solvency

(Continued from page 399)

go far enough, and tend to treat the symptoms rather than the causes. Besides, if the going is really tough, the United States is expected to help, and usually does. The Islanders themselves seem to be divided as to what should be done. Exporters advocate devaluation; the rising new class of industrial entrepreneurs prefers to maintain the present official rate (2 pesos per dollar) in order to keep down the cost of imported raw materials and equipment. Unless more drastic steps are taken by the Filipinos to live within their means, the likelihood of a peso devaluation is bound to increase.

Latin America Battles Insolvency

The year 1958 was a bad year from the viewpoint of Latin

(Please turn to page 442)

BARRON'S

35 CENTS — *National Business and Financial Weekly* — AUGUST 4, 1958

Banana Harvest

United Fruit Points a Moral on U. S. Enterprise Abroad

LATE last week Dr. Milton Eisenhower, wearing the familiar family grin, touched down at MATS Terminal in Washington on his return from a combined fact-finding mission and good-will tour through Central America. Nowhere on his odyssey, happily, did he undergo anything comparable to Vice President Nixon's ordeal of last May. One reason could be that, in the wake of that near-disastrous journey, the President's brother chose a less exposed itinerary. Even so, he encountered occasional cries of "Milton, go home!" and, by his own account, more sharp words than on any previous visit. The U. S., it seems, for all its efforts to woo popularity, is not universally beloved in the lands to the south. Indeed, a searching reappraisal of this country's relations with its Good Neighbors in this Hemisphere is emphatically in order.

In casting about for a new approach, Foggy Bottom should look hard and long at the achievements of certain private concerns in this same touchy area. Very much in point is a fact-filled volume published today by the National Planning Association, the seventh of its case studies of U. S. business performance abroad. The authors, a former president of Ecuador, Galo Plaza, and a respected economist, Stacy May, describe in detail what they call the "rough road to success" of United Fruit Co. in Latin America. From their exhaustive study of the world's greatest banana empire, certain lessons emerge. Business-minded Unifruit has accomplished more for Pan-American solidarity than all of Washington's costly market manipulations in coffee and non-ferrous metals. Similarly, the Boston-based corporation, in fostering economic progress in the less developed countries, puts to shame all the creaking apparatus of foreign aid. In both respects, the private dollar, venturing abroad in search of a profit, has accomplished far more than the public dollar, backed only by fuzzy philanthropy.

United Fruit is an almost classic example. In 59 years, the company has grown until it sprawls over more than a million acres in Guatemala, Honduras, Ecuador, Costa Rica, Colombia, Panama and elsewhere. In 1957 its Great White Fleet of 61 ships brought no fewer than 26 million stems of bananas into this country. The company also cultivates substantial acreages of sugar cane, cacao, abaca, palm oil and timber, and owns nearly 1,400 miles of railroad. Seeking still further diversification, it is now on the prowl for oil and natural gas, bauxite, iron ore and other minerals. Already the concern and its subsidiaries boast assets of nearly $400 million. If far from gigantic by U. S. standards, compared with most Central American ventures, it is a colossus.

* * *

Its growth, however, has not come easily. For few enterprises on the globe face as dismaying a profusion of risks, year in and year out. To begin with, its main source of income, the banana (which NPA calls an implausible product), is singularly susceptible to a host of plant and soil diseases, as well as to windstorm and flood. Equally threatening to Unifruitco prosperity are strikes in the so-called banana republics or on the docks where its highly perishable cargoes are unloaded. Adding to the company's woes was the Justice Department's recent antitrust fight to dissolve it, which ended this spring, when Unifruit signed a consent decree, promising eventually to form a new competitor out of its own assets. Yet perhaps most hazardous of all is the circumstance that, to many a sensitive Latin, this foreign-owned venture, launched in the flamboyant era of dollar diplomacy, long has symbolized U. S. imperialism. To some, the very name United Fruit conjures up an image comparable to that of the Abominable Snowman in the mind of a Sherpa guide.

The exhaustive NPA study reveals how utterly misleading that picture is. In the first place, it painstakingly documents the fact that United Fruit is far from being a corporate plutocrat. The return on its investment over the years, while adequate, has failed to match that of the average company of its size here at home. For the past 11 years, its shareholders have enjoyed no capital gains. In a dynamically expanding U. S. economy, United Fruit, indeed, barely has held its own.

In contrast, the company has done conspicuously well for its host countries—as they themselves are beginning to appreciate. In 1954-55, the year analyzed by NPA, its expenditures in the six-nation area totaled $139 million, and it provided foreign exchange benefits of almost $76 million. Except in Colombia, Unifruitco tax payments constituted more than 6% of total government revenues. Significantly, too, the acreage yield of its plantations was 20 times the average for all other improved farm land. All in all, the company left in its production area more than $7 for every dollar it took out in profits.

Yet the demands on Unifruitco go beyond dollars and cents. Its plantations lie in areas previously undeveloped, often almost uninhabited. The company, then, must supply all the necessary community services—homes, schools, hospitals, churches, roads and utilities. United Fruit housing, to take but a single example, is the best provided agricultural workers anywhere in the tropics. The company also pays wages and fringe benefits well above the going rate. As an enlightened employer in underdeveloped lands, it is running a private program far more comprehensive than the much-touted Point IV.

Here, then, is a vigorous missionary for free enterprise, taking on inordinate risks, for relatively small profit. While many of Washington's lavish grants and loans prove unproductive, or worse, United Fruit yields rich rewards both to the U. S. and to Latin America. Moreover, while inter-government deals in support of coffee, for example, already have cost this country more than half a billion dollars, keeping the banana business healthy has cost not a cent. If the U. S. and its friends to the south will join to encourage more such private ventures, all concerned will benefit. From the viewpoint of the hard-pressed taxpayer, this is free enterprise that is both enterprising and free.

American currencies. The free rates for the *Argentine peso,* the *Brazilian cruzeiro,* the *Colombian peso,* the *Uruguayan peso,* the *Peruvian sol,* the *Bolivian boliviano,* and *Paraguyan guarani* established new lows. Some apprehension developed about the future of the *Cuban peso,* the *Mexican peso,* and the *Guatemalan quetzal.* Even that paragon of hardness, the *Venezuelan bolivar,* softened somewhat. The *Ecuadorean sucre,* the *Dominican peso* and certain *Central American currencies* attached to the dollar remain among the strongest.

The weakness of Latin American currencies has stemmed from two quarters. One has been their reduction of foreign exchange earnings due to already familiar causes: lower commodity prices and contracting world trade. The other has been dismantling of the controls that, in the past, kept many Latin American currencies higher than they should have been in relation to their internal purchasing power; this overvaluation has invited over-importing and capital flight.

The decision to dismantle foreign exchange controls and to let individual currencies seek their own level, was made by a number of Latin American countries to avoid economic collapse or stagnation. With short-term liabilities larger, in some cases, than greatly reduced gold and dollar reserves, with deferred commercial debts falling due, and with capital inflow reduced to a trickle, some of these countries found it impossible to pay even for vital raw materials, fuels, and spare machine parts. Serious bottlenecks began to interfere with economic development; in Colombia, factory operations had to be curtailed because of lack of imported raw materials; in Argentina, moving harvests to ports became a problem; in Uruguay, the electric power service was unable to meet requirements, and in Brazil the development of petroleum resources lagged. Most of all, however, the demands of trade unions degenerated in a number of countries into an elaborate racket that kept the inflationary spiral spinning faster and faster.

In Chile, the currency reforms instituted under President Ibanez in 1955 slowed down inflationary processes with some success. But the decline of foreign exchange earnings in 1957, due to the drop in copper prices, made the task difficult, and the two *Chilean peso* rates that are free to fluctuate declined during the year by about 25 per cent in value. The new president, Jorge Alessandri, the first right-wing president in some 20 years—pledged himself to curb inflation. However the Alessandri Administration is faced with serious unemployment. The size of the new budget indicates that an attempt will be made to stimulate the economy by heavy spending. This implies both the continuation of inflation, although perhaps at a somewhat slower rate, and a further weakening of the Chilean peso. Further U. S. credits may be necessary to stave off another crisis.

In Argentina, President Frondizi recently initiated an internal austerity program, backed by external loans and credits totaling some $329 million—the largest single package ever negotiated with a Latin American nation. The Argentine peso, currently around 70 to the dollar, was left to find its own level. Considering Argentina's natural resources, the reform has a good chance of succeeding. During the Peron decade, the country underwent not only a social and political revolution, but an economic transformation as well. All of this is bound to complicate President Frondizi's program of rebuilding Argentine export industries. More budget deficits are in sight, and the peso will undoubtedly drift lower, though perhaps more slowly than in the past months.

Despite the distortions resulting from violent inflation, Brazil's economy continues to grow, although at a much slower rate than in the recent past. Some foreign capital, too, continues to be invested in the country. The steady decline of the purchasing power of the *cruzeiro* is causing dissatisfaction on the part of both the right and the left. The Kubitschek Administration is making some effort to enforce monetary discipline. The free rate of the *cruzeiro,* now more in line with its internal purchasing power, was at the end of 1958 around 140 per dollar, but unquestionably will drift lower

when the recent wage boosts—a 60 per cent increase in minimum wages—expand the volume of money in circulation.

A flight of capital in recent months weakened Cuba's international payments position, and no one really knows the present size of the Island's gold and dollar reserves. However, until the last few months, prior to the collapse of the Batista regime, business in Cuba had been very good, with steady progress made in the diversification of the economy. Maintenance of the dollar parity of the *Cuban peso* will depend on the resumption of normal business—especially in respect to moving the sugar crop, the repatriation of capital, and the revival of tourist traffic. Some external assistance may be necessary for Cuba to resume its economic expansion without weakening the peso.

The decline in the *Peruvian sol* has been the result of two developments: on one hand, foreign exchange earnings declined as a result of lower prices of nonferrous metals and smaller capital inflow; on the other hand, industrial expansion, the rising standard of living, and the heavy government deficit have created a demand for imports. The supply and demand for foreign exchange are now slowly adjusting to one another and the sol is becoming steadier. However, it is unlikely that there will be a return to the 1957 rate of 19 soles to the dollar.

The *Venezuelan bolivar* has been gradually softening, partly as a result of some capital flight. The unilateral decision to raise the Venezuelan Government's share in oil profits and to stop granting oil concessions to all foreign oil companies is bound to slow down the inflow of development capital and, in general, to weaken the country's international payments balance.

The apprehension that has been developing concerning the future of the *Mexican peso* has already led to some speculative capital outflow—much as it did last year. Mexico's gold and dollar reserves were apparently drawn down at the very time they would normally have been built up—but how much Mexico lost no one knows, since official figures have not been published for some time. Mexico is closely tied to the

U. S. economy and the recession here, in combination with lower prices of nonferrous metals, was bound to affect it. There was also some uncertainty about the determination of the new President to defend the peso, but this fear has been largely dispelled. With jobs to be provided for some 300,000 new workers every year, Mexico is perhaps accomplishing more than any other country in Latin America in developing its economy with the least amount of inflation. The standard of living has risen steadily, and industrially the country is more diversified and less dependent on the old export products than it has ever been. Although it is difficult for a growing economy like Mexico's to avoid some inflation, Mexico is making a gallant effort to strengthen and defend the peso. Apart from its reserves, it has limited recourse to the International Monetary Fund and the U. S. Treasury. The passing of the recession here should also help Mexican international payments.

Although Canada, too, was hit by the business recession, the *Canadian dollar* remained surprisingly strong throughout 1958. First it was buoyed up by heavy loan flotations in the New York money market; later in the year the premium reflected improvement in Canada's trade position, Canadian exports having been bolstered by such products as iron and uranium ore. The American investor apparently continues to have unbounded confidence in Canada's future, defict financing notwithstanding. With business recession in the United States, about over, and with more money likely to be borrowed here for extensive public works projects, the continuation of the premium on the Canadian dollar seems to be well assured. END

1959 Prospects For Leading Industries

(Continued from page 403)

department stores should fare well again in 1959, and gains could be exceptional if a new upsurge in hard goods purchasing develops. Few of the better grade stocks in the group are cheap, but in general they appear less overvalued than other groups.

The food chains also took in more than their share of the consumer dollar in 1958, and a repetition of this experience is probable in 1959. Most of the major chains are continuing their programs of closing uneconomical units and opening large, higher profit-margin supermarkets. As a result, earnings growth should continue its upward trend in 1959.

Most of these stocks, again, are no longer cheap. Nevertheless they are more defensive in character than many others more popular just now, suggesting that carefully selected issues can be purchased with safety.

Office Equipment — For almost the first time in their history, the office equipment makers exhibited a recession-resistant status in 1958. All but three of the major companies in the field scored sales advances as the trend toward office-automation picked up steam.

In the profits column, however, things were less encouraging. The high cost of research and development, plus ever-increasing competition from large and small companies alike cut profit margins substantially for most of the producers. IBM and Addressograph-Multigraph were standouts against this trend, but even these companies may have difficulty maintaining their high profit margins. The President of IBM has, in fact, warned stockholders that non-recurring factors played a large role in 1958's improved earnings, and may not be as pronounced in 1959 and the years ahead.

Regardless of the low profit margins, however, the high level of research and development must have established a base for growing sales in the years ahead. Almost all resistance to electronic machines has now been overcome and these robots have been accepted in daily business life, as well as being vital components of our military efforts.

Thus the time will come—and perhaps not remotely—when development costs will slow down sufficiently to allow the companies to reap larger profits from their efforts. Nevertheless, the exuberant growth labels affixed to these stocks has caused some

of them to discount by many years the most extravagant possible earnings increases. Undoubtedly, in a bull market, some office equipment shares will remain near the head of the list. But their inflated price-earnings ratios will make them ever more vulnerable to price setbacks. The future of the industry is bright; the prices of the stocks are fraught with danger.

Farm Equipment — A 20% rise in farm income in 1958 paved the way for a highly successful year for the farm equipment producers. Operating economies and better organized marketing methods should lead to another good year in 1959.

After that, however, the picture is again clouded. Farm prices have softened considerably in the last few months and indications now point to an approximate 5% drop in farm income in 1959. This would leave farm income high above the 1957 level, but if the downward trend should continue into 1960, farmers may again curtail their equipment purchases.

As an offset, more intensive output per acre is becoming an increasingly imperative need in the farm economy, making it unlikely that equipment purchases will drop back to the severely depressed levels of the mid-fifties.

Companies such as Deere and J. I. Case, therefore, should enjoy more stable demand in the next few years even though growth may not be as rapid as in 1958. International Harvester and Allis Chalmers, however, will continue to be affected by other industrial factors as a result of their wide diversification in steel making, construction equipment and heavy electrical apparatus.

Textiles—The stage has been set for a turnaround in the textile industry, but only time will tell whether it will actually materialize. 1958 represented some improvement by turning out as only the second worst year in history, whereas most members of the industry expected it to be *the* worst.

At the end of 1958 some encouraging signs were visible. Prices were firm, and a few increases had actually been instituted. Moreover, Tyrex, a rayon

cord, was competing successfully with nylon cord in tires.

The process of retiring excess capacity is still going on, and as a result 1959 earnings will continue to reflect the losses taken on these facilities. For this reason astute investors will keep a closer eye on volume and prices, and subject earnings statements to careful scrutiny. They may in some cases be much better than a surface reading would reveal.

Textile stocks have already scored a modest recovery, but they could still be profitable *if* the limited business upswing now in evidence continues through the first half of 1959. END

The 1959 Bond Market

(Continued from page 407)

Treasury at this writing has about decided to put out a long-term bond to cover January cash needs. A Treasury "4" priced to yield a little more than 4% should do well.

The deeper significance of the new Treasury 4% bond is that it serves as a confirmation that the Treasury has not given up its goal of lengthening the maturity structure of the debt. The corollary is that there will be other Treasury bond offerings in 1959, as market conditions permit. The Treasury has learned that bond offerings in recession invite criticism, and are almost impossible to sell at the top of a boom. Years of transition, such as 1959, are the natural times to sell bonds.

The implications for the investor are clear. Well priced Treasury offerings will be available and where they suit requirements they should be bought. But there is no need to chase the market up, if rallies appear. The better way will be to buy at opportune times.

Federal Reserve Credit Policy

When the November election returns came in, showing a landslide victory for the Democratic party, the bond market rallied for a few weeks. The reasoning: the Democrats were for "easy money" and the Federal Reserve would be intimidated or not permitted to tighten credit any further. Interest rates might even be pegged at low levels, as they were from 1942 to 1951, and bond prices would benefit accordingly.

It was fantastic that such an argument could command serious attention. However much political oratory there was about "tight money", *the biggest domestic issue on the horizon is the shrinkage of the dollar through inflationary price rises.* The Democrats are fully aware that it would be political suicide to appear as the party of inflation.

A more respectable point is that the Federal Reserve will not be able to tighten credit as it might wish because it will have to consider the Treasury's financing needs. It is very likely true that the Reserve authorities will make some additional reserve funds available at times of Treasury borrowings to help the banks do a temporary underwriting job. But the significant point for the course of interest rates and bond prices is that these additional reserves will be parceled out grudgingly, as they were in 1957 when the Treasury had similar problems. The banks will be expected to get their funds at the discount window, with the understanding that funds borrowed will be paid back in a short time.

It is highly significant that the Federal Reserve conducted its open market operations in December so that member banks had to incur net debt to the Federal Reserve (discounts above excess reserves) for the first time since December 1957. *The natural follow-up is another discount rate hike, certainly before the end of April and perhaps as early as the latter half of January when the Treasury's cash borrowing will be out of the way.*

The Federal Reserve's determination to contain inflation and defend the value of the dollar, wherever interest rates and bond prices go, was made crystal clear in a hard-hitting speech by Reserve Board Chairman William McC. Martin on December 12. Mr. Martin went out of his way to indicate that there would be no compromise of basic principle with the Treasury, the Congress or anyone else. Citing growing distrust abroad of the future of the American dollar, he said, "it is a serious matter when an important segment of world opinion has begun to question the fiscal and monetary integrity exemplified by our American dollar. It is not something we can lightly pass over in the hope it will go away. The battle against inflation is at a crucial point, and a setback in the United States would be a serious setback for the entire free world." He concluded grimly: "Until or unless the people, through the Congress, change the Federal Reserve Act I can pledge to all of you that the Federal Reserve System will do everything in our power to safeguard the currency."

Why Buy Bonds?

It seems clear, in light of all the foregoing, that bond prices are not going to surge up in 1959, as they did in 1958. Anyone looking for big capital gains had better look elsewhere. Yet there are some valid reasons which suggest limited, well-timed purchases of bonds for the shrewd investor. They grow out of the basic principle that all investment represents a weighing and balancing of risks. The bond market may not be in a position to boom. But neither is it going to collapse. In the jargon of the marketplace it is pretty well "sold out."

The stock market, on the other hand, has gotten to the point where a correction would not be surprising at all. The new highs recorded almost daily are based on fears of inflation and hopes of future earnings, not on current results. Price-earnings ratios are high by all past standards. Business and profits will have to do better, perhaps considerably better, just to hold the market where it is.

This is not to say that a market collapse is in the cards. This is extremely unlikely in the absence of a major business setback. But a 10 or 15% drop in the market could emerge out of a slower than expected business recovery, a failure of management to protect profits from rising wage and other costs, the selective impact of Government contract cancellations, or a lessening of inflationary sentiment.

Thus, even though a considered judgement is that at the end of 1959 interest rates may be higher and bond prices lower than they are now, it may be worthwhile for the cautious investor to make some limited well-timed moves

into bonds. There is not much hope of capital gains but *bonds or shorter interest-bearing securities can protect against intermediate declines in stocks and, in the meantime, produce more income than most blue chip equities.*

Bond purchases should be timed for periods of pressure in the market, such as that in the Treasury market currently. It is worth remembering that although most bonds are now below their levels of last summer, investors who bought Sears, Roebuck 4⅝s and Standard Oil of Indiana 4½s last September still have 5 and 3 point premiums above par respectively; even U. S. Steel 4s sold in July before the bond market really fell out of bed, are within 1½ points of par.

What Kind of Bonds?

The range of investment opportunities in bonds is wide. Treasury issues are the safest securities in the world, and they also enjoy the most active market. Adjusting to the prospect of a new 4% issue, most bonds are at or near the most attractive levels of the past twenty-five years. *It seems safe to say that any time a U. S. Treasury bond is available at 4% or better, a purchase will work out well over the long haul.* Table I shows current price levels and corresponding yields on selected Treasury issues, compared with prices and yields at the 1957 low and at the 1958 high.

The investor buys safety when he acquires a U.S. Treasury bond. To get it he gives up something in yield. As a matter of fact in the current market the investor probably gives up more yield than he should when he buys a Treasury bond in preference to a high-grade corporate security. In an economy in which the Government is committed to maintain a high level of economic activity, *bonds of leading, well managed corporations afford almost as much certainty of repayment as Treasury bonds, and they offer considerably better returns.* Table II sets out selected issues in the various quality ranges.

Corporate bonds offer the highest return but interest on them, as on Treasury obligations, is subject to income taxation, at rates ranging from 20 to 91%.

TABLE I

SELECTED TREASURY BOND PRICES

	October 1957 Low		April 1958 High		Jan. 2, 1959	
	Price	Yield	Price	Yield	Price	Yield
2½'s due 12/15/67-72	85⅝	3.75%	97¼	2.72%	86¼	3.78%
4's due 10/1/69	99¾	4.00	110⅜	2.92	101½	3.83
3¼'s due 6/15/78-83	92⅛	3.71	103⅛	3.04	91	3.82
3¼'s due 5/15/85	———		101½	3.12	90⅞	3.81
3½'s due 2/15/90	———		106⅞	3.16	92¾	3.91
3's due 2/15/95	86¾	3.62	99	3.04	86⅞	3.66

Thus, the obligations of state and local governments, and public authorities of all kinds, which are tax exempt, have particular attraction for investors subject to the higher ranges of the income tax. *For example, an investor with taxable income of $16,000 a year is subject to a marginal tax rate of 50%; for him a 3% return on a tax exempt school bond is equivalent to 6% on a Treasury or corporate obligation. The drawback is somewhat less marketability.* In this type of bond the individual investor probably should buy A or Aa obligations; yields on Aaa obligations are held down by the fact that many institutional investors are restricted to investment in them. Table III on the next page lists a few selected tax exempt issues.

A bit farther afield, but extremely interesting for the venturesome bond investor are the obligations of our neighbor to the north, Canada. They offer yields ranging up close to 5% even though the Canadian Government's credit is second only to that of the U. S. Treasury. The explanation is that the massive refunding of almost 40% of the Canadian debt into longer term obligations last summer has left a temporary oversupply of long-term issues. Table IV gives a selection of intermediate and long-term issues.

Canadian bonds must, of course, be paid for in Canadian funds and the investor would have to pay the current 3¾ cent premium to buy Canadian dollars. But this would be recovered when the bonds are sold again and the proceeds converted back into U. S. dollars. The best opinion is that the Canadian dollar will continue to trade at a premium over the U. S. dollar in the foreseeable future.

Summary of 1959 Bond Policy

Bonds will not produce big capital gains in 1959. But, in view of risks in the stock market, they may provide a useful hedge against capital loss and offer good income as well. Purchases need to be well timed and investors should recognize that they do not need to chase the market; any rallies will be limited in extent. Purchases in periods of pressure should work out well. For example, a Treasury 4% bond in

TABLE II

CURRENT PRICES AND YIELDS ON SELECTED CORPORATE BONDS

Rating	Issue	Price	Yield
Aaa	Southern Bell Tel. 4⅝s due 12/1/43	100⅞	4.57%
Aaa	St'd Oil of Cal. 4⅜s due 7/1/83	102	4.24
Aa	Sears, Roebuck 4¾s due 8/1/83	105¼	4.40
Aa	Pac. Tel. & Tel. 4⅝s due 11/1/1990	100½	4.59
A	Tenn. Gas Transmission 5⅜s due 1/1/79	105¼	4.98
Baa	Douglas Aircraft 5s due 4/1/59-78	100¾	4.94

TABLE III			
SELECTED TAX EXEMPT OBLIGATIONS			
Rating	Issuer	Price	Yield
Aaa	Maryland 2¾s due 12/15/69-72		2.70-2.80½
Aaa	New York 2.90s due 1/15/72-90		2.85-3.00
Aa	Baltimore, Maryland 1½s due 11/1/67		3.50
Aa	Massachusetts 1¾s due 1/1/82		3.75
Aa	California 1¾s due 11/1/75		3.75
A	Hempstead, N. Y. 3½s due 3/1/82-88		3.70-3.75
Baa	Smithtown, N. Y. 4s due 6/1/78-84		3.90-3.95
—	N. J. Highway Auth. Rev. 4⅛s due 1/1/60-88	104½	4.10
—	Chelan Cty. Wash. P.U.D.#1 5s due 7/1/2013-62	108¼	4.59

January could go to a premium in February, if only on the basis of the seasonal uncertainty as to the business outlook.

Where possible, commitments should be made in new issues, which are usually priced more attractively than outstanding bonds. Buyers of tax exempt bonds who are interested in quality but also in income, might consider the obligations of Massachusetts and California which usually offer 0.15 or 0.20% more than other Aa-rated obligations.

Success in the efforts of Federal Reserve Board Chairman Martin and President Eisenhower to limit inflation and protect the value of the dollar could make 1959 a key year in the re-establishment of bonds to a position of respectability in investment portfolios. Meanwhile, the sophisticated investor should not ignore the very real contribution bonds can make to a productive and prudent investment program. END

TABLE IV			
SELECTED CANADIAN, GOVT. BONDS, PRICES AND YIELDS			
		Current	
	1958 Low Price	Price	Yield
3¾s due 9/1/65	93	94½	4.72%
2¾s due 12/15/67-68	86¾	87¼	4.41
4¼s due 9/1/72	94	95¼	4.72
3¾s due 1/15/75-78	87	88	4.72
4½s due 9/1/83	94	96	4.77
3¾s due 3/15/96-98	82	83½	4.67

For Profit and Income

(Continued from page 425)

Strong

Among the individual stocks reflecting better-than-average demand at this writing are: Atchison, Baltimore & Ohio, Bestwall Gypsum, Borg-Warner, Cities Service, Consolidated Natural Gas, Continental Insurance, Eastman Kodak, Ford Motor. Johns-Manville, Northwest Airlines, Revere Copper, Union Tank Car, U. S. Steel, and Western Maryland. END

The State Of The Union

(Continued from page 396)

also rejected "feverish building of vast armaments to meet glibly predicted moments of so-called 'maximum peril'."

And the President made this pledge: "Working by these guide lines I believe with all my heart that America can be as sure of the strength and efficiency of her armed forces as she is of their loyalty. I am equally sure that the nation will thus avoid useless expenditures which, in the name of security, might tend to undermi the economy and, therefore, th nation's safety."

Foreign Aid Spending

Enlarging the protection of th United States, the President commented, is the friendship and as sociation enjoyed with 50 othe countries in collective securit arrangements. At this point, Mr Eisenhower edged toward disclo sure of what he will expect Cong ress to provide in a mutual sec urity or foreign aid bill. But h veered away with the explanatio that a committee of eminent cit zens is engaged in reappraisin mutual assistance programs an the proper division of appropr ated money between military an economic aid. He expressed hop that preliminary recomme tions of this committee wil available to assist in shapi MSA programs for the next Fi cal Year. *Interesting in that co nection* is the fact that, *as th President spoke, the propos budget was in print includin aid appropriation and a meth of allocation* which, impliedl will be sustained on the basis a report not yet drafted. It w not difficult to sense that th White House will recommen more military aid than Congre sional committees have favored the past. The President sai "Any survey of the free world defense structure cannot fail impart a feeling of regret that much of our effort and resourc must be devoted to armament . . . America will never give hope that eventually all natio can, with mutual confidence, dra tically reduce these non-produ tive expenditures."

Recovery Without Gigantic Expenditures

The first direct slap at th "spenders" came when Ike move into economic discussion, poin ing out that the recession is fa ing into history. "And this," h said pointedly, "without giganti hastily-improvised public wor projects or untimely tax redu tions." This was one of the mo meaningful as well as prophet statements of the entire Messag In it were words of caution th big building programs and t reduction having been found n

(Please turn to page 450)

(Continued from page 448)

to be necessary in time of recession, there is much more reason for rejecting them now — a time of employment, production, and income upsweep. He could have had in mind bills already introduced for federally-financed housing, an airport program, a school-aid program including new classrooms and teacher pay, aid to economically depressed areas.

Planning Ahead for 1960

Fixing 1960 commitments (the Fiscal year begins July 1) at $47 billion for armed forces, Atomic Energy Commission, and mutual aid, and with no prospect that there may be reduction in immediate years ahead, the President moved toward pinpointing the possible areas of government economy. He cited essential expenditures to serve a burgeoning population and Federal grants and long-term loans to assist 14 major types of capital improvements in our cities, calling for $2 billion in 1960.

Not only defense, but also a way of life must be preserved and this can be accomplished, he warned, only by planning ahead for the needs of a population which will reach 190 million within five years. To the task of such planning, the President made it known he will ask the services of educators, labor and management, finance, the professions and every other kind of useful activity. This group would inventory the past, evaluate the present, and blueprint the future. It would move boldly into an area often examined but without lasting solutions: *Allocation of Federal, State,* and *Local functions,* which it is assumed would involve *re-shuffle of responsibilities and recasting the system of taxation — decentralization of Big Government.*

The country was depicted as economically strong enough to spend billions, but unable to afford one cent of waste: Congress must examine every item of Government expense critically to avoid *inflationary processes which could disrupt the economy.*

Wage-price spiral and continued deficit financing were deplored with this grim warning: *"Inflation would reduce job opportunities, price us out of world markets, shrink the value of savings and penalize the thrift* so essential to finance a growing economy. *Inflation can be prevented.* But this *demands statesmanship* on the part *of business* and *labor leaders* and *of government* at all levels."

For his program to check the rise of inflation, President Eisenhower presented an outline in brush strokes: Restraint of the wage-price spiral, pay-as-you-go budgeting with no deficiency appropriations — a balanced budget; living within our means to insure a stable dollar.

Then came the oral blockbuster which had been "telegraphed" from the opening words of the Message:

"The Constitution entrusts the Executive with many functions, but the Congress—and the Congress alone—has the power of the purse. Ultimately upon Congress rests responsibility for determining the scope and amount of Federal spending."

Ike was not washing his hands of responsibility this far in advance of the performance he appears to expect. He offered the cooperation of the Executive Office to maintain a balance between income and outgo, expressed confidence joint effort would accomplish the goal.

The President's comments on tax revision and equalization were disappointing in the sense that they delay making a start — until the Secretary of the Treasury has prepared appropriate proposals "to remove inequities and to enhance incentives for all Americans to work, to save, and to invest." Such recommendations were promised "as soon as our fiscal condition permits." But the sentence which followed appears to defer decisions for one full year. The President continued: "These prospects will be brightened if 1960 expenditures do not exceed the levels recommended."

As several of his predecessors have in the past, Mr. Eisenhower asked that he be given "item veto" powers. This would permit him to strike out of legislation, "riders" and log-rolling appropriations which under present practice must be approved with the full bill or require veto of all, a tricky and time wasting procedure.

Needed Reforms

Present practices of extending Federal credit and insuring private loans are held needlessly adding to government costs and a message is promised, proposing legislative reforms.

The existing *farm program* also is in for overhaul. The U. S. Department of Agriculture, *paying out $5 billion this year, providing two-fifths of all farm income in the United States, and spending $1 billion a year for administration of the farm bills while adding annually to a surplus storage worth $9 billion* — with no problem solved and no solution in sight, said the President. He promised an early message with proposals that supply-and-demand be given greater play.

A Cabinet level study of price stability for economic growth touching both governmental and private policies affecting costs, prices, and economic growth, and improved information on prices, wages, and productivity was disclosed as a White House plan for early implementation.

In Conclusion

The world situation was reviewed in detail, with assurance that there will be no weakening in this country's insistence on the right to speak out and to act on behalf of oppressed countries and with a tribute paid to private enterprise for the part it is playing in economic development of other countries.

The President saved for his final special recommendation, *action to cure abuses in the labor-management field.* He expressed disappointment that Congress had failed to legislate last year to attack corruption, racketeering and abuse of power as disclosed by the McClellan Committee. He asked for more effective local law enforcement, supplemented by Federal legislation to protect the public interest and the rights of workers. *"Half-hearted measures will not do," he warned a Congress which probably is more in political debt to labor organizations than any which have come before.* A Labor-Management Message will be submitted outlining the specifics which, democrats charge, the Administration has failed to come up with in the past.

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